



3 1761 11968194 8

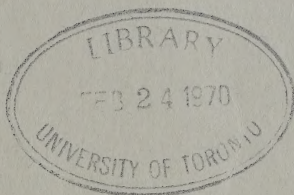
92 ΦN
C 2
3C52

Ontario. legislative assembly. [Committee]
Select committee on consumer credit
Hearings

SELECT COMMITTEE ON CONSUMER CREDIT

Proceedings of the hearing
held at the Parliament Build-
ings, Toronto, Ontario on the
24th day of June, 1963.

1. obligation under interest (Foster)
2. Role of Broker - for whom does he hold who is his client
(Shapiro)



OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO. LTD.
BOARD OF TRADE BLDG.
11 ADELAIDE ST. W.
TORONTO

364-5865

364-7383



1 APPEARANCES SELECT COMMITTEE ON CONSUMER CREDIT

2 Proceedings of the hearing
3 held at the Parliament Build-
4 ings, Toronto, Ontario on the
5 24th day of June, 1963.

6 COMMISSION :

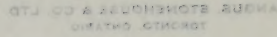
7 MR. H.J. PRICE -- Chairman
8 MR. J. SEDGWICK, Q.C. -- Commission
9 Counsel
10 MRS. S. DELL -- Secretary
11

12 P R E S E N T :

13 Mr. D.W. Irwin, C.A. -- Financial
14 Consultant
15 Mr. M. Belanger -- Member
16 Mr. P. Hoffman -- Member
17 Mr. W.G. Noden -- Member
18 Mr. L. Letherby -- Member
19 Mr. L. Reilly -- Member
20 Mr. J. White -- Member
21 Mr. D.C. MacDonald -- Member
22 Mr. G. Bukator -- Member
23 Mr. A.S. Lawrence -- Member

24
25
26 A P P E A R A N C E S :

27 Mr. W.B. Common, Q.C. -- Deputy Attorney-
28 General, Ontario
29 Department of the
30 Attorney-General
Mr. D.E. MacKenzie -- Solicitor



Digitized by the Internet Archive
in 2023 with funding from
University of Toronto

In 2023 with funding from

University of Toronto



A P P E A R A N C E S :

Mr. C. Richards

-- Superintendent of
Insurance and
Registrar of Loan
and Trust Corp-
orations, Depart-
ment of the
Attorney-General

Mr. W.M. Jaffray

-- Deputy Superintend-
ent of Insurance

Mr. V.J. Simone

-- Registrar of
Collection
Agencies, Depart-
ment of Insurance

Miss Wysocki

-- Advisory Counsel,
Department of the
Attorney-General

In addition we have with us the Committee legal
counsel Mr. Joseph Sedgwick, Q.C. on my left; and our
consultant Mr. Douglas Irwin, C.A., who will advise the
Committee on financial matters on my right.

I would now ask Mrs. Dell to read the terms
of reference of the Committee.

MRS. DELL: The terms of reference are contained
in the motion that was passed in the House on Friday,
April the 26th, 1963, and are as follows:

"Order--that a Select Committee of the House
be appointed to examine items, study and recom-
mend on all matters relating to the actual
cost of credit to consumers such as instalment
purchasers, borrowers and mortgagors in the
Province of Ontario and without limiting
the generality of the foregoing the Committee's
attention is particularly directed to



A P P E A R A N C E S :

1	
2	Mr. C. Richards
3	
4	
5	
6	Mr. W.M. Jaffray
7	
8	Mr. V.J. Simone
9	
10	Miss Wysocki
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	
25	
26	
27	
28	
29	
30	

-- Superintendent of Insurance and Registrar of Loan and Trust Companies, Department of the Attorney-General

-- Deputy Superintendent of Insurance

-- Registrar of Collection Agencies, Department of Insurance

-- Advisory Counsel, Department of the Attorney-General



1 ---UPON COMMENCING: tion of means by which total charges
2 "for borrowing money may be revealed in regard
3 THE CHAIRMAN: The meeting will now come to
4 order. This is the first meeting, as you know, of the
5 Consumer Credit Committee appointed during the last
6 session of the legislature. I would first of all like to
7 introduce Mrs. S. Dell, who will be acting as Committee
8 Secretary -- Mrs. Dell . . . and I would also like to
9 introduce the other members of the Committee who are here
10 attending today's meeting. At the far right we have
11 Mr. Reilly and Mr. Letherby; Mr. Noden, Mr. Hoffman, and
12 on the other side of the table on my left we have Mr.
13 Lawrence, Mr. Bukator and Mr. MacDonald.
14 In addition we have with us the Committee legal
15 counsel Mr. Joseph Sedgwick, Q.C. on my left; and our
16 consultant Mr. Douglas Irwin, C.A., who will advise the
17 Committee on financial matters on my right.
18 I would now ask Mrs. Dell to read the terms
19 of reference of the Committee.
20 MRS. DELL: The terms of reference are contained
21 in the motion that was passed in the House on Friday,
22 April the 26th, 1963, and are as follows:
23 "Order -- that a Select Committee of the House
24 "be appointed to examine items, study and recom-
25 "mend on all matters relating to the actual
26 "cost of credit to consumers such as instalment
27 "purchasers, borrowers and mortgagors in the
28 "Province of Ontario and without limiting
29 "the generality of the foregoing the Committee's
30 "attention is particularly directed to



---UPON COMMENCING:

THE CHAIRMAN: The meeting will now come to order. This is the first meeting, as you know, of the Consumer Credit Committee appointed during the last session of the legislature. I would first of all like to introduce Mrs. S. Dell, who will be acting as Committee Secretary -- Mrs. Dell . . . and I would also like to introduce the other members of the Committee who are here attending today's meeting. At the far right we have Mr. Reilly and Mr. Bethery; Mr. Nodden, Mr. Hoffman, and on the other side of the table on my left we have Mr. Lawrence, Mr. Bukator and Mr. MacDonald.

In addition we have with us the Committee legal counsel Mr. Joseph Sedgwick, Q.C. on my left; and our consultant Mr. Douglas Irwin, C.A., who will advise the Committee on financial matters on my right.

I would now ask Mrs. Dell to read the terms of reference of the Committee.

MRS. DELL: The terms of reference are contained in the motion that was passed in the House on Friday, April the 26th, 1963, and are as follows:

"Order -- that a Select Committee of the House be appointed to examine items, study and recommend on all matters relating to the actual cost of credit to consumers such as installment purchasers, borrowers and mortgagees in the Province of Ontario and without limiting the generality of the foregoing the Committee's attention is particularly directed to



1 "investigation of means by which total charges
2 Department "for borrowing money may be revealed in regard
3 first speak "to land mortgages, chattel mortgages, condition-
4 "all sales agreements, credit retail purchases and
5 and gentle "similar transactions. And that the Select
6 to my right "Committee shall consist of eleven members and
7 "shall have authority to sit, during the inter-
8 Miss Wysock "val between sessions and have full powers, with
9 what I would "and authority to appoint or employ counsel and
10 in the other "secretary and such other personnel as may be
11 you want; "deemed advisable; and to call for persons,
12 does exist, "papers and things and to examine witnesses under
13 all out "oath and the Assembly doth commend and compel
14 further if "attendances before the said Select Committee
15 investigate "of such persons and the production of such papers
16 statutes, "and things as the Committee may deem necessary
17 statutes d "for any of its proceedings and deliberations,
18 and loans "for which purpose the Honourable the Speaker may
19 to place "issue his warrant or warrants."
20 THE CHAIRMAN: Mr. W.B. Common, Q.C., will be
21 with us later on this afternoon. We have with us Mr.
22 Donald E. MacKenzie, solicitor, who will speak to us
23 on legislation in other provinces which could come within
24 our terms of reference and Mr. C. Richards, the Superintend-
25 ent of Insurance and Registrar of Loan and Trust Company.
26 statutes, Mr. Richards. really only two provinces with reg-
27 slatory Yes, would you mind standing, Mr. MacKenzie?
28 And Mr. Richards, the Superintendent of Insurance and Mr.
29 W.M. Jaffray, the Deputy Superintendent of Insurance and
30 Mr. Simone, Registrar of Collection Agencies.



1 "investigation of means by which total charges
2 "for borrowing money may be revealed in regard
3 "to land mortgages, chattel mortgages, condition-
4 "al sales agreements, credit retail purchases and
5 "similar transactions. And that the Select
6 "Committee shall consist of eleven members and
7 "shall have authority to sit during the inter-
8 "val between sessions and have full power
9 "and authority to appoint or employ counsel and
10 "secretary and such other personnel as may be
11 "deemed advisable; and to call for persons,
12 "papers and things, and to examine witnesses under
13 "oath and the Assembly doth command and compel
14 "attendance before the said Select Committee
15 "of such persons and the production of such paper
16 "and things as the Committee may deem necessary
17 "for any of its proceedings and deliberations,
18 "for which purpose the Honourable the Speaker may
19 "issue his warrant or warrants."
20 THE CHAIRMAN: Mr. W.B. Common, Q.C., will be
21 with us later on this afternoon. We have with us Mr.
22 Donald E. MacKenzie, solicitor, who will speak to us
23 on legislation in other provinces which could come within
24 our terms of reference and Mr. C. Richards, the Superintend-
25 ent of Insurance and Registrar of Loan and Trust Company.
26 Mr. Richards . . .
27 Yes, would you mind standing, Mr. MacKenzie?
28 And Mr. Richards, the Superintendent of Insurance and Mr.
29 W.M. Jaffray, the Deputy Superintendent of Insurance and
30 Mr. Simone, Registrar of Collection Agencies.



1 I will now call on Miss Wysocki, Advisory Counsel,
2 Department of the Attorney General, who will introduce the
3 first speaker.

4 MISS WYSOCKI: Mr. Chairman, Madame Secretary
5 and gentlemen. Mr. MacKenzie, as you all know, sitting
6 to my right here . . . (inaudible)

7 MR. MacKENZIE: Mr. Chairman, Madame Secretary,
8 Miss Wysocki, gentlemen: This submission here deals with
9 what I would call regulatory and disclosure type statutes
10 in the other provinces of Canada with probably more detail than
11 you want; but, in order to give you the picture of what
12 does exist, and what the history has been, I have set it
13 all out here so that you can maybe perhaps investigate
14 further if there is anything here that you wish to
15 investigate. I speak of regulatory statutes and disclosure
16 statutes. Regulatory statutes I would define as those
17 statutes dealing with conditional sales, chattel mortgages
18 and loans where there is an attempt made by the legislature
19 to place some control on the freedom of contract of the
20 parties; either by setting forth the term, the length of
21 the term or the amount of the down payment or this
22 sort of thing. And disclosure legislation is that type of
23 legislation which simply requires that certain inform-
24 ation be disclosed in the contract.

25 Until very recently, except for two federal
26 statutes, there has been really only two provinces with reg-
27 ulatory or disclosure type statutes. In the federal field,
28 we have the Small Loans Act, which regulates the interest
29 rate, varying from two per cent on loans of \$300.00 up to
30 a half of one per cent on loans over a thousand dollars;
but it regulates only



1 I will now call on Mr. MacKenzie to read the Bill.
2 Department of the Attorney General, Canada.
3 That Bill.
4 This Bill.
5 and Gentlemen, Mr. MacKenzie, as you all know, sitting
6 to my right here. (Inaudible)
7
8 Miss Wysocki, Gentlemen: This amendment here deals with
9 what I would call regulatory and disclosure type statutes
10 in the other provinces of Canada with probably more detail
11 you want; but, in order to give you the picture of what
12 does exist, and what the history has been, I have set it
13 all out here so that you can maybe perhaps investigate
14 further if there is anything here that you wish to
15 investigate. I speak of regulatory statutes and disclosure
16 statutes. Regulatory statutes I would define as those
17 statutes dealing with conditional sales, chattel mortgages
18 and loans where there is an attempt made by the legislation
19 to place some control on the freedom of contract of the
20 parties; either by setting forth the terms, the length of
21 the term or the amount of the down payment or this
22 sort of thing. And disclosure legislation is that type of
23 legislation which simply requires that certain information
24 be disclosed in the contract.
25
26 Until very recently, except for the Federal
27 statutes, there has been really only two provinces with
28 we have the Small Loans Act, which regulates the interest
29 rates, varying from two per cent on loans of \$500.00 up to
30 a half of one per cent on loans over a thousand dollars.
31 and it regulates the



1 loans up to \$1,500.00. With this legislation, the lenders
2 in this field have to obtain a licence and comply with
3 certain amount of information and so on. Then we have the
4 Interest Act insofar as mortgages are concerned where there
5 is requirement where you have a sinking fund plan of
6 repayment, or blended principal and interest payments,
7 where the interest must be shown, must be stated as
8 interest calculated yearly or half-yearly and not in
9 advance.

10 Now going into the provincial field, in the
11 Province of Quebec they have had a statute which is both
12 regulatory and disclosure for a number of years. This
13 is called the Instalment Sales Act, and it is part of
14 the Quebec civil code. It is very limited in its applic-
15 ation in that it only deals with sales of \$800.00 or less,
16 and excludes a great many things from it. It, in effect,
17 is pretty well restricted to the appliance type of
18 purchase -- doesn't attempt to cover all the fields or
19 anything used in industry or commerce. This piece of
20 legislation has a statutory form of contract which requires
21 that the information be disclosed in a certain way; it has
22 provisions which deal with the down payment, and also with
23 the term of the transaction. The down payment must be
24 at least 15 per cent of the instalment sale price. That
25 would be the price plus whatever finance or costs would have
26 to be added, and the term, six months -- it must be
27 repayable in six months if \$50.00 or under; twelve months
28 if less than \$100.00; eighteen months if less than \$300.00,
29 and in all other cases 24 per cent -- or 24 months rather.
30 Excuse me.



1 Now as to the next part of this statute; it
2 attempts to put a cap on the amount of the
3 charge by providing that it cannot be more than three-
4 quarters of one per cent per month of the total deferred
5 payments. A great many people feel that this is outside
6 the constitutional jurisdiction of the Province of
7 Quebec, in that it attempts to restrict or regulate the
8 charge. Now that is the only Act in Quebec. In Alberta,
9 they have had for a number of years an Act called the
10 Credit and Loan Agreements Act. This Act deals not only
11 with time sales, but also with loan agreements, and
12 requires simply disclosure. They, very briefly, they
13 want the cash selling price of the dealing of the time
14 sale. They want the cash selling price of the object sold;
15 the time sale price; that would be the price plus all
16 charges or costs that would be added on; the amount and
17 type of down payment, either cash or trade-in; the balance
18 of the price that must be paid; the number of instalments
19 and the amount of instalments; the amount of the insurance
20 if any, whether it is added or included. The charge for
21 filing or recording if that is added.

22 And then you -- if there is any additional charge
23 like a past-due or overdue charge, it must be also
24 declared. And all this information, they have a schedule
25 in the Act and the information has to be set out pretty
26 well along the lines of the schedule, and in ten point print
27 so that no one can hide the fine print.

28
29 Now, they do this same thing for loan agreements
30 and roughly the same type of information is required, the



attempt to put a cap on the amount of the

charge by providing that it cannot be more than three-

quarters of one per cent per month of the total deferred

payments. A great many people feel that this is outside

the constitutional jurisdiction of the Province of

Quebec, in that it attempts to restrict or regulate the

charge. Now that is the only Act in Quebec. In Alberta,

they have had for a number of years an Act called the

Credit and Loan Agreements Act. This Act deals not only

with time sales, but also with loan agreements, and

with the sale of goods.

want the cash selling price of the - dealing of the time

sale. They want the cash selling price of the object sold;

the time sale price, that would be the price plus all

charges or costs that would be added on; the amount and

type of down payment, either cash or trade-in; the balance

of the price that must be paid; the number of installments

and the amount of installment; the amount of the interest

if any, whether it is added or included. The charge for

filling or recording if that is added.

And then you -- if there is any additional charge

like a past-due or overdue charge, it must be also

declared. And all this information, they have a schedule

in the Act and the information has to be set out pretty

well along the lines of the schedule, and in ten point print

so that no one can hide the fine print.

Now, they do this same thing for loan agreements

and require the same type of information to be printed



1 principal amount of the loan; the amount of the charge
2 added if it is a fixed amount, or, in dollars or an
3 interest rate if it is strictly by interest payments --
4 interest, rate of interest; the amount that the borrower
5 actually receives, and the period over which it must be re-
6 paid. This doesn't apply to certain loans -- loans by
7 banks, credit unions, pawnbrokers or where the whole
8 charge of the loan is expressed as a rate of interest per
9 annum, nor the loans under the Federal Small
10 Loans Act, or to real property or commercial property
11 loans secured by real property or commercial property.
12 The sanction is a fine and imprisonment on failure.

13 Now at the last session of the Alberta
14 Legislature, they introduced an amendment to this
15 statute, the principle item of amendment being that the
16 charge for the loan or for the time sale must be stated
17 as the equivalent of a simple interest on interest on
18 the declining balance from time to time outstanding.

19 This statute or this amending statute has never
20 been proclaimed, I understand, just before I say that --
21 by regulation the Province has stated that they would
22 work out a method under which the interest or the charge
23 would be computed. Now I understand that when they came
24 to working out this computation or the method by which
25 the interest would be computed, they became bogged down
26 in the mathematics and have not proclaimed the statute;
27 and I understand that it has been postponed for a further
28 year while this is investigated. In Manitoba, in 1962, they
29 introduced a statute very similar to that in Alberta.
30 It was a disclosure type of statute, restricted to time



1
2
3 interest rate if it is strictly by interest payments --
4 interest rate of interest; the amount that the borrower
5 actually receives, and the period over which it must be paid.
6 This doesn't apply to certain loans -- loans by
7 banks, credit unions, pawnbrokers or where the whole
8 charge of the loan is expressed as a rate of interest per
9 annum, not the loans under the Federal Small
10 Loans Act, or to real property or commercial property
11 loans secured by real property or commercial property.
12 The sanction is a fine and imprisonment or failure.
13 Now at the last session of the Alberta
14 Legislature, they introduced an amendment to this
15 statute, the principle item of amendment being that the
16 charge for the loan or for the time sale must be stated
17 as the equivalent of a simple interest for
18 the declining balance from time to time outstanding.
19 This statute or this amending statute has never
20 been proclaimed, I understand, just before I say that --
21 by regulation the Province has stated that they would
22 work out a method under which the interest on the charge
23 would be computed. Now I understand that when they came
24 to working out this computation or the method by which
25 the interest would be computed, they became bogged down
26 in the mathematics and have not been able to proceed
27 and I understand that it has been postponed for a further
28 year while this is investigated. In Manitoba, in 1902, the
29 introduced a statute very similar to that in Alberta.
30 It was a similar type of statute, restricted to



1 sales only -- didn't purport to various loans. The only
2 difference between the type of information that had to be
3 disclosed basically, was that the type of insurance had to
4 be spelled out at greater length in the Manitoba bill than
5 in the Alberta bill. This bill was never proclaimed,
6 and in the last session of the legislature, an amending . . .

7 Oh, before I come to that, one of the provisions
8 of the Manitoba bill was that the charge be stated as a
9 simple rate of interest per year. This bill was never
10 proclaimed and in the last session of the legislature
11 an amending statute was introduced. The principal item
12 of that was to delete the requirement that the charge be
13 shown as a simple rate of interest, and made the compliance
14 only if the total charge as a dollar figure was shown.
15 Again, I believe that the reason for this change was the
16 representations made by the merchant groups and so on,
17 against this being compelled to show the charge as a
18 simple rate of interest.

19 Saskatchewan, at the last session of the leg-
20 islature, stated that they were going to have introduced
21 a disclosure bill. A draft bill was actually prepared
22 and submitted to interested parties, but it was never
23 introduced in the legislature, and in a newspaper clipping
24 it was announced that the bill would not be introduced
25 at the present time due to lack of public interest.
26 Now the Alberta and the Manitoba bills are the only real
27 disclosure type bills in existence except for Quebec.
28 Nova Scotia has a -- what they call an Instalment Payment
29 Contracts Act. This bill is sort of a queer type of
30 animal, I don't really know what the purpose is. It requires



1 sales only -- didn't purport to various loans. The only
2 difference between the type of information that had to be
3 disclosed lastically, was that the type of information had to
4 be spelled out at greater length in the Manitoba bill than
5 in the Alberta bill. This bill was never proclaimed,
6 and in the last session of the legislature, an amendment
7 Oh, before I come to that, one of the provisions
8 of the Manitoba bill was that the change be stated as a
9 simple rate of interest per year. This bill was never
10 proclaimed and in the last session of the legislature
11 an amending statute was introduced. The principal item
12 of that was to delete the requirement that the change be
13 shown as a simple rate of interest, and made the compliance
14 only if the total change as a dollar figure was shown.
15 Again, I believe that the reason for this change was the
16 representations made by the merchant groups and so on,
17 against this being compelled to show the change as a
18 simple rate of interest.
19 Saskatchewan, at the last session of the leg-
20 islature, stated that they were going to have introduced
21 a disclosure bill. A draft bill was actually prepared
22 and submitted to interested parties, but it was never
23 introduced in the legislature, and in a newspaper clipping
24 it was announced that the bill would not be introduced
25 at the present time due to lack of public interest.
26 Now the Alberta and the Manitoba bills are the only real
27 disclosure type bills in existence except for Quebec.
28 Nova Scotia has a -- what they call an Instalment Payment
29 Contracts Act. This bill is sort of a queer type of
30



1 anyone who's selling under conditional sale contract or
2 hire purchase agreement to obtain a licence which costs
3 \$2.00. This is an annual licence, and any assignee
4 of a conditional sale contract or hire purchase agreement
5 also has to obtain a licence. The Minister who administers
6 the Act has the right to withdraw the licence at his
7 absolute discretion, and they also, or the Department has
8 the right to examine the records of the seller. To my
9 knowledge this is not done at all. All that happens is
10 that people pay the licence and that's the last they ever
11 hear about it once a year.

12 Up until 1959, New Brunswick had a statute which
13 attempted to regulate the down payment and the term.
14 The down payment had to be 15 per cent and the full pay-
15 ment of the balance due had to be repaid within 24 months.
16 I don't know what the explanation for the withdrawal was,
17 but I believe it was on the basis that this was too hard
18 on the people wishing to make purchases, in that they had
19 to repay within the 24 months, particularly in automobiles
20 where the term of the contract tends to increase rather
21 than decrease.

22 Now these are the only statutes of this type
23 that have effect when the contract is entered into. Some
24 of the provinces deal with the rights of the creditor,
25 in the event of default in a little different way. I don't
26 know whether the Committee is interested in hearing about
27 that or not. I haven't included them in my submission.
28 For example: in Alberta, by the Judicature Act a mortgage --
29 under a mortgage the lender has what we call an election of
30 remedies. That is, he can take either the real estate or



1
2
3
4
5
6 also has to obtain a licence. The Minister who administers
7 the Act has the right to withdraw the licence at his
8 absolute discretion, and they also, on the Department has
9 the right to suspend the licence at any time.
10 that people pay the licence and that's the last they ever
11 hear about it once a year.
12 Up until 1959, New Brunswick had a statute which
13 attempted to regulate the down payment and the term.
14 The down payment had to be 15 per cent and the full pay-
15 ment of the balance due had to be repaid within 24 months.
16 I don't know what the explanation for the withdrawal was,
17 but I believe it was on the basis that this was too hard
18 on the people wishing to make purchases, in that they had
19 to repay within the 24 months, particularly in automobiles
20 where the term of the contract tends to increase rather
21 than decrease.
22 Now there are the only statutes of this type
23 that have effect when the contract is entered into. Some
24 of the provinces deal with the rights of the creditor
25 in the event of default in a little different way. I don't
26 know whether the Committee is interested in hearing about
27 that or not. I haven't included them in my submission.
28 For example in Alberta, by the Judicature Act a mortgage
29 of a mortgage the lender has what we call an election of
30 remedies. He can either sue for the debt or he can



1 sue for the money. He can't do both. In other words, if
2 he takes the real estate -- the personal covenant falls.
3 I believe that there is a similar statute in Saskatchewan.
4 On the level of conditional sales, in Alberta, they also
5 have this election of remedies, in that if you take the
6 collateral back the debt falls; or you can -- if you sue --
7 Well what happens is, in effect, this doesn't save the
8 debtor because a guessing game is played by the creditor.
9 If he thinks he can get the price out of the resale of the
10 goods he will take it back and forget about any deficiency
11 right. If he feels that the commodity will not bring the
12 price on resale, then he sues and has the right to seize
13 this and other goods and execute as if it were a normal
14 type of judgment.

15 In Saskatchewan on the same line, they have what
16 is called The Limitation Civil Rights Act, which in effect
17 makes a conditional sale almost a hiring with the purchaser
18 entitled to give the commodity back at any time without
19 any consequences or any demand being made on him for any
20 deficiency. This could be waived by companies but not
21 by individuals. I think, gentlemen, that that is all I
22 have to offer the -- in this submission -- in greater
23 detail than what I have gone into.

24 THE CHAIRMAN: Are there any members of the
25 Committee who have any questions they would like to ask?

26 MR. MacDONALD: I have two things,

27 Mr. Chairman, I would like to ask: With reference to

28 the Quebec Act which to use your expression in regard to const-
itutionality I take it that has been tested?

30 MR. MacKENZIE: It has never been tested, sir.



1 me for the money. We can't do both. In other words, if
2
3
4 On the level of conditional sales, in Alberta, they also
5 have this election of remedies, in that if you take the
6 collateral, back the debt falls; or you can -- if you are
7 Well what happens is in effect, this doesn't save the
8 debtor because a guessing game is played by the creditor.
9 If he thinks he can get the price out of the resale of the
10 goods he will take it back and forget about any deficiency
11 right. If he feels that the commodity will not bring the
12 price on resale, then he goes and has the right to realize
13 this and other goods and execute as if it were a normal
14 type of judgment.
15 In Saskatchewan on the same line, they have what
16 is called The Limitation of Civil Rights Act, which in effect
17 makes a conditional sale almost a hiring with the purchase
18 entitled to give the commodity back at any time without
19 any consequences or any demand being made on him for any
20 deficiency. This could be waived by companies but not
21 by individuals. I think gentlemen, that that is all I
22 have to offer the -- in this submission -- in greater
23 detail than what I have gone into.
24 THE CHAIRMAN: Are there any members of the
25 Committee who have any questions they would like to ask?
26 MR. McDONALD: I have two things.
27 Mr. Chairman, I would like to ask: With reference to
28 the Quebec Act which to use your expression in regard to the



1 I think basically the reason is that you are dealing with
2 rather small amounts of money, and the cost of taking
3 it right through to the Supreme Court just prohibited its
4 testing.

5 MR. MacDONALD: What would the mathematical
6 problems be involved in this difficulty of calculating
7 the interest rates? Could you elaborate on that?

8 MR. MacKENZIE: Well, I would rather not because
9 I think you can get people here, Mr. MacDonald, who know
10 a great deal more about it than I do. My own feeling is
11 that it is very difficult and I wouldn't attempt to try
12 and work out the simple rate of interest on a finance
13 type contract. It varies so much depending upon when the
14 first payment is, whether there are consecutive monthly pay-
15 ments or there are skipped payments and so on. But I think
16 that I would prefer not to get into that. I do not think I
17 am qualified. Let me put it that way.

18 MR. MacDONALD: What I am really after is what are
19 the factors which make it difficult? Would you suggest that
20 some provinces . . .

21 MR. MacKENZIE: Well, I think maybe the mathemat-
22 ics in relationship to the freedom of contract that you have
23 in this area where basically it's a buyers' market. The
24 seller attempts to accommodate the purchaser; if he wants
25 to skip payments or wishes to have a couple of extra months
26 before he makes any payments, usually, I think the seller
27 will give it to him and the net result is that you get so
28 many different possibilities that you can't just set down a
29 few standards for the computation of the interest rate.
30 And then, you get another set -- you get -- I didn't
mention although it's in here that both Manitoba



I think basically the reason is that you are dealing with
rather small amounts of money, and the cost of taking
it right through to the Supreme Court just prohibited its
being done.

the interest rates? Could you elaborate on that?
MR. MACKENZIE: Well, I would rather not because
I think you can get people here, Mr. MacDonald, who know
a great deal more about it than I do. My own feeling is
that it is very difficult and I wouldn't attempt to try
and work out the simple rate of interest on a finance
type contract. It varies so much depending upon when the
first payment is, whether there are consecutive monthly pay-
ments or there are skipped payments and so on. But I think
that I would prefer not to get into that. I do not think I
am qualified. Let me put it that way.

MR. MACDONALD: What I am really after is what are
the factors which make it difficult? Would you suggest that
some provinces . . .

MR. MACKENZIE: Well, I think maybe the mathematics
for in relationship to the freedom of contract that you have
in this area where basically it's a buyers' market. The
seller attempts to accommodate the purchaser; if he wants
to skip payments or wishes to have a couple of extra months
before he makes any payments, usually, I think the seller
will give it to him and the net result is that you get so
many different possibilities that you can't just set down a
formula for the computation of the interest rate.
And then, you get another set -- you get -- I didn't
mention it here that both Manitoba



1 and Alberta have attempted to deal with what they call
2 deferred . . . I want to get the term here . . . Basically,
3 they are the type of contract that arise -- continuous
4 deferred payment plans by your department stores and that
5 where you have a budget account and I assume that you
6 can make purchases up to a certain amount, and as you
7 pay down you can go back and purchase and so on.

8 Now, the computation of the interest rate I
9 think in that type of situation would be pretty terrific --
10 pretty difficult.

11 MR. MacDONALD: Well, Mr. Chairman, I don't believe
12 Mr. MacKenzie is intentionally . . .

13 MR. MacKENZIE: No, I -- I am not -- I would prefer
14 to leave it alone because I am not qualified to speak
15 of it.

16 MR. MacDONALD: . . . yes, it is something else
17 to be disqualified, but it seems to me that it should be
18 possible to decide on a rate and that rate applies to the
19 deferments and payments and the rate applies on the payments
20 that are deferred.

21 MR. MacKENZIE: That is if you quote it as a
22 simple rate right from the word go, yes.

23 MR. MacDONALD: Yes, yes.

24 THE CHAIRMAN: Mr. Bukator? Mr. Lawrence?

25 MR. MacDONALD: Has the Alberta -- the old Alberta
26 Act ever attempted to . . . (inaudible) . . .
27 constitutionality?

28

29

30



1 I want to get the term here . . . Basically
2 they are the type of contract that arise -- continuous
3 deferred payment plans by your department stores and that
4 where you have a budget account and I assume that you
5 can make purchases up to a certain amount, and as you
6 pay down you can go back and purchase and so on.
7 Now, the computation of the interest rate I
8 think in that type of situation would be pretty terrible --
9 pretty difficult.
10 MR. MacDONALD: Well, Mr. Chairman, I don't recall
11 Mr. MacKenzie is intentionally . . .
12 MR. MacKENZIE: No, I am not -- I am not -- I would prefer
13 to leave it alone because I am not qualified to speak
14 of it.
15 MR. MacDONALD: . . . Yes, it is something else
16 to be disqualified, but it seems to me that it should be
17 possible to decide on a rate and that rate applies to the
18 deferrals and payments and the rate applies on the payments
19 that are deferred.
20 MR. MacKENZIE: That is if you quote it as a
21 simple rate right from the word go, yes.
22 MR. MacDONALD: Yes, yes.
23 THE CHAIRMAN: . . .
24 MR. MacDONALD: Has the Alberta -- the old Alberta
25 Act ever attempted to . . . (Inaudible)



1 MR. MacKENZIE: I don't believe so, no.

2 There again, it -- it's so simple to comply with, it's
3 the information that is given in the normal course of
4 business that everyone is complying without any difficulty
5 and possible that is the reason.

6 MR. LAWRENCE: If I may interrupt you here --
7 did they say when the amending Act comes into force in Alberta?

8 MR. MacKENZIE: They haven't said -- the inform-
9 ation I have is that it won't be proclaimed for a year
10 at least.

11 MR. LAWRENCE: Have you anything to do with
12 the Province's . . . (inaudible)

13
14 MR. MacKENZIE: No, no. I am not a member of
15 the Attorney General's Department -- I am just giving them
16 a hand here. I might . . .

17 MR. LAWRENCE: You are here as an individual
18 are you?

19 MR. MacKENZIE: Yes, yes.

20 MR. LAWRENCE: Oh well, as an individual do you
21 think that the field of disclosure interests is constitution-
22 ally within the power of the province?

23 MR. MacKENZIE: The disclosure of the charge, may be,
24 I think, most definitely probably is -- when you require
25 disclosure of the interest rate, then it may start
26 verging on the federal jurisdiction.

27 MR. MacDONALD: Even a (simple) disclosure?

28 MR. MacKENZIE: Well, probably as long as it is
29 simple, that's right. But then if you deal with a
30 conditional sale where you are dealing with a sale, it

MR. MACKENZIE: I don't believe so, no.

There again, it -- it's so simple to comply with, it's

the information that is given in the normal course of

business that everyone is complying without any difficulty

and possible that is the reason.

MR. LAWRENCE: I am not sure.

did they say when the Amending Act comes into force in April

MR. MACKENZIE: They haven't said -- the Inform-

ation I have is that it won't be proclaimed for a year

at least.

MR. LAWRENCE: Have you anything to do with

the Province's . . . (inaudible)

MR. MACKENZIE: No, no. I am not a member of

the Attorney General's Department -- I am just giving them

a hand here. I might . . .

MR. LAWRENCE: You are here as an individual

are you?

MR. MACKENZIE: Yes, yes.

MR. LAWRENCE: Or well, as an individual do you

ally within the power of the province?

MR. MACKENZIE: The disclosure of the charge, may

I think, most definitely probably is -- when you receive

disclosure of the interest rate, then it may start

verging on the federal jurisdiction.

MR. McDONALD: Even a simple disclosure?

MR. MACKENZIE: Well, probably as long as it is

simple, that's right. But then if you deal with a

conditional sale where you are dealing with a bank,



1 isn't really an interest rate; it's a dollar figure.
2 Now I think -- let me put it this way. I believe
3 Senator Croll has got some opinions on his bill which is
4 a disclosure type bill. To an extent, I think some of
5 these opinions vary and before he has asked that it
6 be tested or given to the Justice Department to have the
7 constitutionality of it decided upon, because I think
8 he has some doubt about whether the federal government
9 should be requiring disclosure.

10 MR. LAWRENCE: Well again, preparing as an
11 individual, you have obviously done a lot of work on this
12 and I hope you don't mind if I presume to ask you
13 you questions about your own opinion.

14 MR. MacKENZIE: No.

15 MR. LAWRENCE: If we got into the stage where
16 we had to recommend constitutional changes, do you think
17 the provinces or the federal government are better equip-
18 ped to deal with this?

19 MR. MacKENZIE: I think that I would like to see it
20 uniform across the country. Let me answer you that way, because
21 I think there is much benefit in the man in Ontario being
22 regulated the same as the man in British Columbia when
23 he goes to purchase a product, or to make a loan. I think
24 that in the provinces there hasn't been too much uniformity
25 even in the Conditional Sales Act where chattel mortgages
26 are concerned there are great variations. And, in effect
27 you change the rights of the individual accordingly.

28 MR. LAWRENCE: Thank you, Mr. MacKenzie.

29 THE CHAIRMAN: Mr. Reilly?

30 MR. REILLY: Yes Mr. Chairman. I wonder if Mr.



1 isn't really an interest rate; it's a dollar figure.

2 Senator Groll has got some opinions on this bill which is

3 a disclosure type bill. To an extent, I think some of

4 these opinions vary and before he has asked that it

5 be tested or given to the Justice Department to have the

6 constitutionality of it decided upon, because I think

7 he has some doubt about whether the Federal Government

8 should be requiring disclosure.

9 MR. LAWRENCE: Well again, preparing as an

10 individual, you have obviously done a lot of work on this

11 and I hope you don't mind if I presume to ask

12 you questions about your own opinion.

13 MR. MACDONALD: No.

14 MR. LAWRENCE: It we got into the stage where

15 we had to recommend constitutional changes, do you think

16 the provinces of the Federal Government are better equip-

17 MR. MACDONALD: I think that I would like to see

18 uniform across the country. Let me answer you that way. I

19 think there is much benefit in the man in Ontario being

20 regarded the same as the man in British Columbia when

21 he goes to purchase a product, or to make a loan. I think

22 that in the provinces there hasn't been too much uniformity

23 even in the Conditional Sales Act where chattel mortgages

24 are concerned there are great variations. And, in effect

25 you change the rights of the individual accordingly.

26 THE CHAIRMAN: Mr. Reilly?

27 MR. REILLY: Yes Mr. Chairman.



1 MacKenzie would care to elaborate further on the disclosure
2 type of statute used in Alberta and Manitoba versus the other
3 type of statute used for disclosure purposes. The differ-
4 ence, specifically, in the two that you mentioned previously
5 being . . . MR. MacKENZIE: You mean between disclosure
6 and regulatory?

7 MR. REILLY: Right.

8 MR. MacKENZIE: Well, disclosure simply is a
9 contract or legislation that requires the seller or lender
10 to set forth certain information, usually the selling price
11 or the actual amount advanced with generally a break-
12 down . . .

13 MR. REILLY: A breakdown?

14 MR. MacKENZIE: Yes, a breakdown of all the
15 additional items that go -- that must be added to that to be
16 paid for under an instalment plan.

17 MR. REILLY: Those items I mentioned specifically --

18 MR. MacKENZIE: Yes, that's right. For example,
19 taking Alberta, the amount of any separately charged for
20 insurance, the amount of charge required by the
21 seller for the privilege of purchasing on the time
22 sale; the total -- something else here I believe they
23 require -- the recording or filing.

24 In other words, all the charges that go to make
25 up the total amount that is going to be -- what they do
26 is they require that you show the selling price and then
27 you work down so that you show the total time price. And
28 this total time price is not necessarily -- is not the
29 amount that is going to be paid by the purchaser, but the
30 total cost, because it doesn't take into consideration



MacKenzie would care to elaborate further on the disclosure
type of statute used in Alberta and Manitoba versus the other
types of statute used for disclosure purposes. The differ-
ences in the way the disclosure is handled in the various provinces
is a matter of fact, and I am not sure that it is a matter of
policy.

and regulatory?

MR. REILLY: Yes.

MR. MACKENZIE: Well, disclosure simply is a

contract or legislation that requires the seller or lender
to set forth certain information, usually the selling price
or the actual amount advanced, with generally a breakdown

MR. REILLY: A breakdown?

MR. MACKENZIE: Yes, a breakdown of all the

additional items that go -- that must be added to that to be
paid for under an installment plan.

MR. REILLY: Those items I mentioned specifically?

MR. MACKENZIE: Yes, that's right. For example,

taking Alberta, the amount of any separately charged for

insurance, the amount of charge required by the

seller for the privilege of purchasing on the time

sale; the total -- something else here I believe they

require -- the recording or filing.

In other words, all the charges that go to make

up the total amount that is going to be -- whatever do

is they require that you show the selling price and then

you work down so that you show the total time price. And

this total time price is not necessarily -- is not the

amount that is going to be paid for the purchase, but it

is the total price that is going to be paid for the purchase.



1 the down payment. In other words, the down payment must
2 be shown, but down here so that he can compare the total
3 cash price with the total time price as two single figures.

4 MR. REILLY: Right. Now, what about the
5 regulatory?

6 MR. MacKENZIE: The regulatory; to this is
7 added a requirement that you must have a down payment
8 of a certain percentage, say 15 per cent in Quebec and
9 New Brunswick, and they head it that the term can be
10 no longer than so many months for certain amounts, or,
11 varying on that. I don't know whether there are any
12 other -- I suppose there could be other regulatory stim-
13 ulation programmes. . . New Brunswick. . .

14 MR. REILLY: When dis-
15 continued theirs, you suggested that the problem might
16 be on the basis of cars and exceeding the
17 24 months

18 Are there any other reasons which you . . .

19 MR. MacKENZIE: I don't really know that that
20 was the reason. It has always been my opinion that that
21 was the reason because the tendency particularly in
22 automobile financing as I understand it has been to
23 extend longer terms than 24 months, and I think that
24 probably this 24 months was a hardship on the consumer.

25 MR. REILLY: You don't know whether they
26 considered discontinuing it on automobiles only and not
27 some other . . .

28 MR. MacKENZIE: Well, just before they did dis-
29 continue it, they -- now, I had better be careful --
30 the mobile homes or trailers . . .



be shown, but down here so that he can compare the total
with price with the total time price as two single figures.
MR. REILLY: Right. Now, what about the

MR. MacKENZIE: The regulatory; so this is
added a requirement that you must have a down payment
of a certain percentage, say 15 per cent in Quebec and
New Brunswick, and they read it that the term can be
no longer than so many months for certain amounts, or
varying on that. I don't know whether there are any
other -- I suppose there could be other regulatory at-
tention programmes . . . New Brunswick .

MR. REILLY: When
continued theirs, you suggested that the problem might
be on the basis of cars and exceeding the
24 months
Are there any other reasons which you .

MR. MacKENZIE: I don't really know that that
was the reason. It has always been my opinion that that
was the reason because the tendency particularly in
automobile financing as I understand it has been to
extend longer terms than 24 months, and I think that
probably this 24 months was a hardship on the consumer.

MR. REILLY: You don't know whether they
considered discontinuing it on automobiles only and not

some other . . .
MR. MacKENZIE: Well, just before they did dis-
continue it, I don't know . . .
the mobile homes or trailers . . .



1 They either put them in or took them out. Now I am not
2 just -- I don't . . .
3 No. They excluded them. They hadn't -- they
4 weren't really excluded before so they excluded them, but
5 I think it basically became difficult because there was
6 no right toward extension, you see. I mean that 24 months
7 -- this 24 months period. If the purchaser came along and
8 asked for an extension of a couple of months, well, if
9 the seller granted it to him he would have no security
10 right for whatever amount of extension resulted.

11 THE CHAIRMAN: Mr. Letherby?

12 MR. LETHERBY: Well, Mr. Chairman, I have very
13 little to say to that. My impression is that the outline
14 of the present legislation which is set up by other
15 provinces, I think is not nearly -- not sufficiently
16 comprehensive to meet the wide terms of reference which
17 we have for this Committee. This, to me, indicates that we
18 are playing around with probably appliances and cars,
19 which in my opinion they have not gone very far to any great
20 extent on that.

21 However, it is very, very nice to know, sir,
22 exactly what has been done and what is being done in other
23 jurisdictions to meet that possibility.

24
25 MR. MacKENZIE: Well, you see -- I might just
26 say that the Manitoba and Alberta Acts could cover all
27 of , regardless of the commodity.

28 MR. LETHERBY: I mean, are you getting in now
29 to mortgage loans?

30 MR. MacKENZIE: No. No, mortgage loans -- Ontario



1 They either put them in or took them out. Now I am not

2 Just -- I don't . . .

3 No. They excluded them. They hadn't -- they

4 hadn't really excluded before so they excluded them, but

5 I think it basically became difficult because there was

6 no right toward extension you see. I mean that 24 months

7 asked for an extension of a couple of months, well, if

8 the seller granted it to him he would have no security

9 right for whatever amount of extension resulted.

10 THE CHAIRMAN: Mr. Leatherby?

11 MR. LEATHERBY: Well, Mr. Chairman, I have very

12 little to say to that. My impression is that the outline

13 of the present legislation which is set up by other

14 provinces, I think is not nearly -- not sufficiently

15 comprehensive to meet the wide range of reference which

16 we have for this Committee. This, to me, indicates that we

17 are playing around with probably appliances and cases,

18 which in my opinion they have not gone very far to any great

19 extent on that.

20 However, it is very, very nice to know, sir,

21 exactly what has been done and what is being done in other

22 jurisdictions to meet that possibility.

23 MR. MACKENNIN: Well, you see -- I might just

24 say that the Manitoba and Alberta Acts could cover all

25 of the commodity.

26 MR. LEATHERBY: I mean, are you getting in now

27

28

29

30



1 is the only one that has a . . .

2 MR. LETHERBY: That was my thought, sir. But
3 this has pretty much to do with purchasing of appliances
4 and cars --

5 MR. MacKENZIE: The trouble is, you see, they
6 cover everything. Not only consumer goods, but purchases
7 of all kinds of equipment, heavy equipment

8
9 THE CHAIRMAN: Mr. Noden?

10 MR. NODEN: Mr. Chairman, (Inaudible.)
11
12
13
14
15
16

17 MR. MacKENZIE: I think you -- this type of
18 legislation; as I say, in Alberta before they amended the
19 Act, it was absolutely no problem for the seller in
20 complying as long as it was just setting out the mathemat-
21 ics of the transaction; that is the selling price and
22 the additions to it, and coming up with an aggregate
23 figure at the bottom. There was no problem, but once
24 he has to be concerned with trying to convert that dollar
25 figure which he is using into an equivalent of a rate
26 of interest, then it becomes a pretty tough problem for
27 him, particularly with small merchants in working it out
28 and in training staff and so on to be able to work it out
29 to make sure that he does comply.

30 The onus of this type of legislation is on the



... only one that has a



1 merchant; the seller. And I think this is the reason why
2 they objected very strongly in Manitoba, and have and are
3 I guess objecting in Alberta against being compelled to
4 comply with it as a rate of interest, this type of disclosure.

5 MR. NODEN: (Inaudible.)
6
7
8
9

10
11
12 MR. MacKENZIE: You mean as in a loan -- as
13 you would do in a loan, say a thousand dollars at six
14 per cent, 12 months? That is true, but the merchant is
15 discounting this paper.

16 MR. NODEN: (Inaudible.)
17
18
19
20

21 MR. MacKENZIE: He knows what it costs to
22 discount it. That is the figure which we actually
23 decided on.

24 MR. NODEN: (Inaudible.)
25
26

27 MR. MacKENZIE: I don't think it's by the
28 paper.

29 MR. NODEN: (Inaudible.) By the paper, yes.
30





1 MR. MacKENZIE: After it has been created by the
2 dealer.

3 MR. NODEN: (Inaudible.)
4
5
6
7
8
9

10 MR. MacKENZIE: But to the extent that he has
11 to draw up the contract.

12 MR. NODEN: (Inaudible.)
13
14

15 MR. MacKENZIE: Well, that, I think is as long
16 as it is just dollars and cents it is.

17 MR. MacDONALD: Mr. Chairman,
18

19 I must confess I have a new appreciation
20 of what appears to be the main problem
21
22

23 MR. MacKENZIE:
24
25

26 MR. MacDONALD: It seems to me that
27
28

29 has been mistaken for the figure in dollars, so that the
30 average person just cannot calculate



RECEIVED
JAN 10 1916

MR. MacKENNIE: After it has been created by the

dealer.

MR. MacKENNIE: (Continued)

MR. MacKENNIE: But to the extent that he has

to draw up the contract.

MR. MacKENNIE: (Continued)

MR. MacKENNIE: Well, that, I think is as long

as it is just dollars and cents is all.

MR. MacKENNIE: (Continued)

I must confess I have a new appreciation

of what appears to be the main problem

MR. MacKENNIE:

MR. MacDONALD: It seems to me that

has been discussed for some time in the past

and it is a very old question



1 He borrows or buys something of \$100.00
2 and his extra payment is going to be \$8.00, but it's only
3 going to be for three months, so in effect he is paying
4 thirty-two per cent interest.

5 MR. MacKENZIE: That may be, but in many respects
6 the disclosure as a dollar amount may be more meaningful
7 to the individual than an interest rate. In speaking to
8 Mr. Sedgwick just before the meeting, I was telling him that I
9 was speaking to a lawyer last week who had multiplied the
10 blended payments of an N.H.A. mortgage and was astounded
11 that by the time that the mortgage was paid off, the
12 charges would equal the principal. Similarly, it seems
13 to me that where you have a dollar figure as against your
14 sale price, that this is as meaningful if not more mean-
15 ingful to the average individual than a rate of interest.

16 MR. MacDONALD: Well, in one sense it may
17 mean he doesn't know exactly how many dollars extra he
18 has to pay.

19
20 On the other hand, I suspect he would be rather
21 shocked if he discovered that that \$8.00 that he was paying
22 on the hundred is -- since it is only on a three month
23 period is actually 32 per cent interest. This would
24 really rock him back on his heels.

25 MR. MacKENZIE: Well, I wonder why? I mean --
26 he doesn't compute his daily expenses in terms of interest.
27 He computes them in dollars and cents.

28 MR. MacDONALD: Well, the point I am getting at
29 is it seems to me that this is an era of
30 injustice certainly is popularly believed, and if, for



He borrowed or buys something of \$100.00
and his extra payment is going to be \$8.00, but it's only
going to be for three months, so in effect he is paying
thirty-two per cent interest.

MR. MACKENZIE: That may be, but in many respects
the disclosure as a dollar amount may be more meaningful
to the individual than an interest rate. In speaking to
Mr. Gedwick just before the meeting, I was telling him that
was speaking to a lawyer last week who had multiplied the
pledged payments of an N.H.A. mortgage and was astounded
that by the time that the mortgage was paid off, the
charges would equal the principal. Similarly, it seems
to me that where you have a dollar figure as against your
sale price, that this is as meaningful if not more mean-
ingful to the average individual than a rate of interest.

MR. McDONALD: Well, in one sense it may
mean he doesn't know exactly how many dollars extra he
has to pay.

On the other hand, I suspect he would be rather
shocked if he discovered that that \$8.00 that he was paying
on the hundred is -- since it is only on a three month
period is actually 32 per cent interest. This would
really rock him back on his heels.

MR. MACKENZIE: Well, I wonder why? I mean --
he doesn't compute his daily expenses in terms of interest.
He computes them in dollars and cents.

MR. McDONALD: Well, the point I am getting at
is -- to me that this is an era of
where certainly is popularly believed, and it, for



1 reasons of mathematical complexity, we are stuck with it,
2 stating it in dollars, can't state it in percentages, then
3 it seems to me that the door is closed to the main object-
4 ive of disclosure. That is, disclosure relating the
5 dollars to some rate of interest, so he has some idea of
6 what extra he is really paying.

7
8
9 MR. MacKENZIE: Well, I don't deny that certainly
10 the interest rate in some instances is probably of interest.
11 In other instances it probably doesn't make any difference.
12 If a man wants to buy a certain commodity, he knows what
13 it is going to cost if he pays cash; and what it is going
14 to cost him if he buys it on terms.

15 MR. MacDONALD: But if he knew that the interest
16 rate was really 24 per cent instead of six per cent, he
17 might go and borrow the money at a bank at six per cent
18 and go and pay cash for the product. But if he does
19 know the interest rate, then he practically, because of
20 his ignorance, is drawn into the proposition that "this
21 is a good deal"; because he simply doesn't know that he
22 is paying 24 per cent interest.

23
24 MR. MacKENZIE: But there are so many ways of
25 computing the interest which you probably know, but if
26 somebody told me of such and such an interest rate, I
27 get concerned right away how is he figuring it out. How
28 is he computing it, because it can make a great, great
29 difference in what he is eventually going to pay,
30 depending on how he figures it out.



reasons of mathematical complexity, we are struck with it,
stating it in dollars, can't state it in percentages, then
it seems to me that the door is closed to the main object-
ive of disclosure. That is, disclosure relating the
dollars to some rate of interest, so he has some idea of
what extra he is really paying.

MR. MACKENZIE: Well, I don't deny that certainly
the interest rate in some instances is probably of interest
in other instances it probably doesn't make any difference.
In a number of cases it is a matter of fact that
it is going to cost if he pays cash; and what it is going
to cost him if he buys it on terms.
MR. McDONALD: But if he knew that the interest
rate was really 24 per cent instead of six per cent, he
might go and borrow the money at a bank at six per cent
and go and pay cash for the product. But if he does
know the interest rate, then he practically, because of
his ignorance, is drawn into the proposition that "this
is a good deal"; because he simply doesn't know that he
is paying 24 per cent interest.

MR. MACKENZIE: But there are so many ways of
computing the interest which you probably know, but if
somebody told me of such and such an interest rate, I
get concerned right away how is he figuring it out. How
is he computing it, because it can make a great, great
difference in what he is eventually going to pay,
depending on how he figures it out.



1 MR. MacDONALD: I am sure that the interest
2 rate should be on an annual basis. The six per cent
3 interest would be . . .

4 MR. MacKENZIE: Well, it could be quoted as
5 a flatorate, or it could be quoted as a discount rate;
6 all these various things, and unless
7 somebody was to spell it out, you might now know.
8 You see, there was a -- in one of the newspapers here,
9 oh, maybe a year ago there was the question of this
10 disclosure of interest, or the charge of the
11 interest rate, and I believe the comment there was that
12 they had put this problem to four or five mathematicians
13 -- each had come up with a different answer.

14 MR. MacDONALD:

15 MR. MacKENZIE: . . . as to what that interest
16 rate was.

17 MR. LAWRENCE: They only do that if their
18 commission for instance were different in each case.

19 MR. MacKENZIE: Well, this is the same -- this
20 is the same problem apparently, given to these four or
21 five department mathematicians.

22 MR. MacKENZIE: I am a little hazy of the
23 detail, but I believe the same problem was given, and they
24 worked it out and each got a different . . .

25 MR. LAWRENCE: Well, I am very sorry, but I
26 can't believe it.

27 MR. MacKENZIE: Well this method . . .

28 MR. LAWRENCE: You are assigning this in a differ-
29 ent way.
30 that the definition of interest is the same for all to



ANGUS, STONOR & CO. LTD.
FOR THE

MR. MacDONALD: I am sure that the interest

rate should be on an annual basis. The six per cent

MR. MacKENZIE: Well, it could be quoted as

a flat rate, or it could be quoted as a discount rate;

all these various things, and unless

somebody was to spell it out, you might not know.

You see, there was a -- in one of the newspapers here,

oh, maybe a year ago there was the question of this

disclosure of interest, or the charge of the

interest rate, and I believe the common thing was that

they had put this problem to four or five mathematicians

-- each had come up with a different answer.

MR. MacDONALD:

MR. MacKENZIE: . . . as to what that interest

rate was.

MR. LAWRENCE: They only do that in their

commission for instance were different in each case.

MR. MacKENZIE: Well, this is the same -- this

is the same problem apparently, given to these four or

five department mathematicians.

I am a little wary of the

detail, but I believe the same problem was given, and

worked it out and each got a different

MR. LAWRENCE: Well, I am very sorry, but I

can't believe it.

MR. MacKENZIE: Well this method

MR. LAWRENCE: You are assuming this is a different

definition of interest is the same for all to



1 begin with . . .

2 you can't end up with a different conclusion.

3 MR. MacKENZIE: This would appear to be so, but
4 I say that this article did indicate that there was this
5 variation in the end result.

6 MR. LAWRENCE: The only point, Mr. Chairman,
7 I don't

8 I think we have got to beware of is it is quite possible
9 to have the problem remain so complex that six months
10 from now you may come to the conclusion this is so complex
11 you can't clarify it in an effort to eliminate a situation
12 in which we certainly can't accept at face value something
13 that is of mathematical significance -- that something
14 should be done with it.

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

MR. MacKENZIE: I believe you have an article
written by an independent gentlemen down in the States
on a doctorate where he discussing the difficulties . . .

THE CHAIRMAN: The members have

MR. MacKENZIE: I am sorry



begin with . . .

you can't end up with a different conclusion.

MR. MACKENZIE: This would appear to be so, but

I say that this article did indicate that there was this

variation in the end result.

MR. LAWRENCE: The only point, Mr. Chairman,

I don't

I think we have got to beware of is it is quite possible

to have the problem remain as complex that six months

from now you may come to the conclusion this is so complex

you can't clarify it in an effort to eliminate a situation

in which we certainly can't accept at face value something

that is of mathematical significance -- that something

should be done with it.

MR. MACKENZIE: I believe you have an article

written by an independent gentleman down in the States

on a doctrine where he discusses the difficulties . . .

THE CHAIRMAN: The members have

MR. MACKENZIE: I am sorry



1 But there is a doctorate which I have seen which goes into
2 this in some detail by this independent doctor of
3 philosophy or something in the States where they are try-
4 ing to work this out.

5 THE CHAIRMAN: Mr. MacDonald?

6 MR. MacDONALD: Can you define interest
7 in carrying charges

8
9 To be brutally frank with you Mr. Chairman,
10 I take it Mr. Noden

11
12 I don't intend to be an expert in this field

13
14 MR. NODEN:

15 We do know the general problem among the public today,
16 but I think there has got to be a fairly strong disposition
17 on our part not to be thrown on about -- we can't get
18 it done
19 because it is too complex. The net result of that is that
20 that we need this generally unacceptable situation

21

22

23

24

25

26

27

28

29

30



1 This is a doctorate which I have seen which goes into
2 this in some detail by this independent doctor of
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

MR. MACDONALD: Can you define interest

in carrying charges

To be practically frank with you Mr. Chairman,

I take it Mr. Noden

I don't intend to be an expert in this field

MR. NODEN:

We do know the general problem among the public today,

but I think there has got to be a fairly strong disposition

on our part not to be thrown on about -- we can't get

it done

because it is too complex. The net result of that is that

that we need this generally unaccepted situation



1 Getting back to this computation of something, one thing that has
2 always astounded me is that when I heard this argument
3 in the past
4 how well or seemingly well in any event the Federal
5 Interest Act seems to be working as compared to disclosure
6 of an interest calculated half-yearly

7
8
9
10 MR. NODEN: This you think, Federal
11 Interest Act is working fairly well?

12 MR. MacKENZIE: It does as long as you are
13 dealing with straight consecutive monthly payments.
14 In two or three instances over the last couple of years
15 where we had to vary the interest rate.

16
17
18 MR. NODEN: Well, I mean it does work fairly
19 satisfactorily?

20
21 MR. MacKENZIE: As I say in
22 straight monthly payments were all equal over a certain
23 number of years.

24
25
26
27
28
29
30



always surrounded me is that when I heard this argument

in the past

how well or seemingly well in any event the Federal

Interest Act seems to be working as compared to the former

of an interest calculated half-yearly

Q. Now, this is the question, is it not?

Interest Act is working fairly well?

MR. MACKENZIE: It does as long as you are

dealing with straight consecutive monthly payments.

In two or three instances over the last couple of years

where we had to vary the interest rate.

MR. NOBLE: Well, I mean it does work fairly

satisfactorily?

MR. MACKENZIE: As I say in

straight monthly payments were all equal over a certain

number of years.



1 MR. MacKENZIE: That, that is true. And as I
2 say we get into something out of the ordinary, and I
3 think the difference here is that out of the ordinary,
4 maybe much more than in the retail sale of a
5 commodity, because it's a business that has been attuned
6 to giving the purchaser what he wants in the way of
7 a payment schedule, when you get into something when he
8 wants to pay
9 twice a year or something like this or three times a year.
10 Even if you were going to work out your interest payments
11 under the mortgage which would be
12 thoroughly complicated, which, probably, as a lawyer, I would
13 really want to attempt to work out if one
14 has to be stated in the contract.

15 MR. LAWRENCE: My only point in mentioning
16 the mortgages and the interest tax is I hoped . . .

17 MR. MacKENZIE: Well, I don't . . .

18 MR. LAWRENCE: Well, this isn't an insurmountable
19 problem by any means.

20 MR. MacKENZIE: No.

21 MR. LAWRENCE: And it has worked here in Canada
22 for, I don't know how many years the Interest Act has been
23 in effect.

24 MR. MacKENZIE: Oh, it goes back . . .

25 THE CHAIRMAN: Mr. White has joined us since
26 we got underway here. Have you any questions Mr. White?

27 MR. WHITE: Well I have a lot of questions,
28 but I am not sure Mr. MacKenzie can answer them.

29

30 THE CHAIRMAN: Mr. Sedgwick?



MR. MACKENZIE: That, that is true. And as I

say we get into something out of the ordinary, and I

think the difference here is that out of the ordinary,

maybe much more than in the retail sale of a

commodity, because it's a business that has been allowed

to giving the purchaser what he wants in the way of

a payment schedule, when you get into something when he

wants to pay

twice a year or something like this or three times a year.

Even if you were going to work out your interest payments

under the mortgage which would be

thoroughly complicated, which, probably, as a lawyer, I would

really want to attempt to work out if one

has to be stated in the contract.

MR. LAWRENCE: My only point in mentioning

the mortgages and the interest tax is I hoped.

MR. MACKENZIE: Well, I don't

MR. LAWRENCE: Well, this isn't an extraordinary

problem by any means.

MR. MACKENZIE: No.

MR. LAWRENCE: And it has worked here in Canada

for, I don't know how many years the Interest Act has been

in effect.

MR. MACKENZIE: Oh, it goes back.

THE CHAIRMAN: Mr. White has joined us since

we got underway here. Have you any questions Mr. White?

MR. WHITE: Well I have a lot of questions,

but I am not sure Mr. Mackenzie can answer them.



1 MR. SEDGWICK: No, no questions.

2 THE CHAIRMAN: Mr. Irwin?

3 MR. IRWIN: No sir.

4

5

6

7

MR. MacKENZIE: Well, I -- I am very new to this
Committee; I guess you all, but most particularly -- I

8

-- you probably know what your exact function is while

9

I don't yet. But I wondered if the -- I am merely throwing

10

this out not as an answer but as a suggestion for thought.

11

Perhaps the difficulty is not in the computation of the

12

interest which is not possible, but in expressing that

13

in terms; legislative terms is that --

14

MR. SEDGWICK: Yes,

15

that is involved in it as well, yes.

16

MR. MacKENZIE: I think that is the crux of it.

17

To be able to put it clearly in a piece of legislation

18

that could be understood -- the rather complex method of

19

determining the effective rate of interest as conditions

20

change over the life of the contract. If I may suggest,

21

Mr. Chairman, it isn't that the thing is impossible. It

22

will be the duty of the legislators to find -- the leg-

23

islators to find the words to express the mathematics.

24

MR. LAWRENCE: Mr. Chairman, there is one other

25

question with regard to some of the provincial legislation

26

or statutes that I am curious about.

27

Mr. MacKenzie expressed

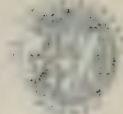
28

some interpretation as to the objective in the Nova

29

Scotia legislation

30



MR. SEDGWICK: No, no questions.

THE CHAIRMAN: Mr. Irving?

MR. IRVING: No sir.

MR. MACKENZIE: Well, I am very new to this

Committee; I guess you all, but most particularly -- I

-- you probably know what your exact function is while

I don't yet. But I wondered if the -- I am merely throwing

this out not as an answer but as a suggestion for thought.

Interest which is not possible, but in expressing that

in terms; legislative terms is that --

MR. SEDGWICK: Yes.

MR. MACKENZIE: I think that is the crux of it.

To be able to put it clearly in a piece of legislation

that would be understood -- the rather complex method of

determining the effective rate of interest as conditions

change over the life of the contract. If I may suggest,

Mr. Chairman, it isn't that the thing is impossible. To

will be the duty of the legislators to find -- the leg-

islators to find the words to express the mathematics.

MR. LAWRENCE: Mr. Chairman, there is one other

question with regard to some of the provincial legislation

or statutes that I am curious about.

some interpretation as to the objective in the Nova

scotia legislation.



1
2 It is not mostly that the objective of the Nova Scotia leg-
3 islation was to be the first step towards regulation of
4 the abuses, and the problem was that there wasn't the follow
5 through, an inspection.

6 MR. MacKENZIE: That could be. I asked the
7 question once of a Nova Scotia lawyer, and he said it was
8 to make some money. But, at \$2.00 a licence, this didn't
9 seem to be the right answer to me. It could be. As a
10 matter of fact, I just heard the other day that Nova
11 Scotia has set up a legislative committee somewhat similar
12 to this to go into the same question.

13 MR. MacDONALD: You see -- we felt there were
14 always abuses that had to be tackled --
15 the mortgage brokerage in Ontario, which made it necessary
16 for them to register, and I assume this was the sort of
17 going on in the field, so that you could take the first
18 step to inspect and supervise.

19
20
21 MR. MacKENZIE: Well as I say, as far as I
22 know, I have never heard of anyone being inspected yet.
23 Now they may do, and I don't know that much about them
24 to be quite frank, but . . .

25 MR. : This would be the first step
26 in the stage with no follow through?

27
28 MR. MacKENZIE: That is true.

29 THE CHAIRMAN: Has anyone else any other
30 questions?

It is not merely that the objective of the Nova Scotia legislation was to be the first step towards regulation of the industry, and the problem was that there wasn't the following through an investigation.

MR. MACDONALD: That could be. I asked him to make some money. But, at \$2.00 a license, this didn't seem to be the right answer to me. It could be. As a matter of fact, I just heard the other day that Nova Scotia has set up a legislative committee somewhat similar to this to go into the same question.

MR. MACDONALD: You see -- we felt there were always abuses that had to be looked -- the mortgage companies in Ontario, which made it necessary for them to register, and I cannot recall the sort of going on in the field, so that you could take the first step to correct and improve.

MR. MACDONALD: Well as I said, as far as I know, I have never heard of anyone being suspected yet how they may do, and I don't know that much about them.

MR. : This would be the first step in the state with no follow through?

MR. MACDONALD: That is true.



1 MR. : I was wondering if there was any-
2 body around who could give us any information on the
3 American situation?

4

5

6

MR. MacKENZIE: No, there are both regulatory
7 and disclosure statutes there. I don't know that -- to
8 an extent the constitutional situation probably is
9 different. I believe that some of the States do have
10 regulatory statutes put a cap on finance or interest
11 charged. But, apparently they are entitled to do so.
12 Now whether this only inter-State -- as against inter-
13 State, I don't really know -- I do know -- to answer your
14 question they do have regulatory statutes and disclosure
15 type statutes.

16

MR. : Do you know of anybody around in
17 the Toronto area that could help us?

18

19

MR. MacKENZIE: Not really, because there is,
20 well there are 48 States. There might be someone around
21 who might know New York, and not know Michigan, that
22 sort of thing.

23

I can give you the statutes-- I mean, I at one time looked
24 at New York. I can't for the life of me now remember
25 what its title was.

26

THE CHAIRMAN: Well, Mr. MacKenzie, I think
27 that concludes any questions the members might have.
28 We appreciate very much your coming before the Committee
29 today and giving examples of your experience which has
30 been most helpful.



MR. : I was wondering if there was any-
body around who could give us any information on the
American situation?

MR. McKENNIN: No, there are both regulatory
and disclosure statutes there. I don't know that -- to
an extent the constitutional situation probably is
different. I believe that some of the States do have
regulatory statutes put a cap on finance or interest
charged. But, apparently they are entitled to do so.
Now whether this only inter-State -- as against inter-
State, I don't really know -- I do know -- to answer your
question they do have regulatory statutes and disclosure
type statutes.

MR. : Do you know of anybody around in
the Toronto area that could help us?

MR. McKENNIN: Not really, because there is,
well there are 48 States. There might be someone around
who might know New York, and not know Michigan, that
sort of thing.

I can give you the statutes-- I mean, I at one time looked
at New York. I can't for the life of me now remember
what its title was.

THE CHAIRMAN: Now, Mr. McKennin, I think
that concludes any questions the members might have.

We appreciate very much your coming before the Committee
and giving examples of your experience which has
been most helpful.



1 MR. MacKENZIE: Thank you very much.

2 THE CHAIRMAN: Mr. Common is here now, the
3 Deputy Attorney General, and I would like to introduce
4 him to the Committee.

5 Have you anything you would like to say at this
6 time Mr. Common?

7 MR. COMMON: I would like to apologize for
8 not being here at the opening of the Committee's deliber-
9 ations. I am not expert in this field by any means, I
10 want to assure you, Mr. Chairman and members of the
11 Committee; although I have made some rather perifical
12 studies of this think over some years. It is a very
13 complicated, of course, system, both for the buyer and
14 conditional sales vendors.

15 I have had the opportunity of reading the Hansard
16 in the Senate when Senator
17 Crowland introduced this, and I rather had some divergent
18 views as to the constitutionality in regard to disclosure
19 of the rate of interest. It seems that there is probably
20 two schools of thought on that legal proposition, and
21 that even on disclosure the provinces have no right to
22 insist that by way of legislation. I have a different
23 view. I think that probably we have the constitutional
24 right to ask for disclosure, interest paid per se.

25 In other words, the total finance charge we would
26 have the right to legislate, in setting out to a complete
27 breakdown as the finance charge on --
28 personally, I am speaking of now on conditional sale
29 contracts, so much rate of interest, so much insurance,
30 so much for service charge, and all these rather obscure



Have you anything you would like to say at



1 charges that conditional sales vendors wrap up in their
2 general finance charge. I repeat there is a different
3 school of thought contrary to mine. However, I suppose
4 we will never get any resolution on that until that is
5 passed upon by the courts to be entered as legislation.

6
7
8 The other matter which -- I am only expressing
9 a personal opinion here -- I have never been too much
10 impressed by this assertion. It only comes from the
11 conditional sale vendor - of the incapacity apparently to
12 set out exactly what the interest charges are. To me,
13 there would appear to be no mystery in the matter. And
14 yet we get these general statements from time to time.
15 It is almost impossible. There is a complete incapacity
16 in the conditional sale vendor to set out the exact rate
17 of interest apart from other service charges.
18 Banks can tell us in a matter of minutes, if one wants
19 to borrow money from a bank, exactly what your rate of
20 interest is going to be, and I don't see very much difference
21 if one wants to buy personally; borrow money in essence,
22 and be advised exactly what the rate of interest is.

23 MR. MacDONALD: Well on that point, if I may
24 say I have some experience in this field, there are
25 requirements in these contracts, perhaps introduced, to
26 obscure the interest rate charged which do make the
27 computation extremely difficult.

28 MR. COMMON: I fail to see the reason.

29 MR. MacDONALD: Well, here is the reason.
30 For instance, on most conditional time contracts, the initial



general finance charge. I suspect there is a different school of thought contrary to mine. However, I suppose we will never get any resolution on that until that is passed upon by the courts to be entered as legislation.

The other matter which -- I am only expressing

a personal opinion here -- I have never been too much

impressed by this assertion. It only comes from the

conditional sale vendor -- of the incapacity apparently to

set out exactly what the interest charges are. To me,

there would appear to be no mystery in the matter. And

yet we get these general statements from time to time.

It is almost impossible. There is a complete incapacity

in the conditional sale vendor to set out the exact rate

of interest apart from other service charges.

Banks can tell us in a matter of minutes; if one wants

to borrow money from a bank, exactly what your rate of

interest is going to be, and I don't see very much difference

if one wants to buy personally; borrow money in essence,

and be advised exactly what the rate of interest is.

MR. MACDONALD: Well on that point, as I say

some experience in this field, there are

requirements in these contracts, perhaps introduced, to

obscure the interest rate charged which do make the

computation extremely difficult.

MR. MACDONALD: I will be sure the person

is not misled.

In instance, on most conditional sale contracts



1 payment must be made within 45 days of the date of
2 purchase.

3 MR. COMMON: That is true.

4 MR. BUKATOR: So you say this gives at least
5 45 variations. For all I know --- I am not a
6 mathematician -- it may give many times that number, and
7 so it is perfectly true that as set up it becomes extremely
8 difficult to figure exactly, precisely to the second or
9 third decimal point what the effective or true rate of
10 interest is.

11 On the other hand, some of those some of those
12 elaborations likely aren't necessary.

13 MR. COMMON: I think the complication that the
14 conditional sale vendor meets on this thing is the addition
15 to the rate of interest, per se, to a lot of these other
16 obscure service charges such as insurance. They have
17 some sort of a fund they used to call -- I know years ago,
18 whether they do it now I am not in a position to say, but
19 many years ago the finance company would charge X dollars
20 as an insurance fund in case the paper went bad. From
21 one deal this would be built up into hundreds and hundreds
22 of dollars as a sort of insurance fund in favour of the
23 dealer, and he could get that money. Now whether that is
24 true or not today, I am not in a position to say.
25 They used to call it a participation fund, I think is
26 what it was. And all these various charges that were
27 put in leads to this complication that you are talking
28 about, Mr. Bukator, but I am not a
29 financial man by any means or a chartered accountant; but
30 it seems to me that these broad statements that it is

1 payment must be made within 15 days of the date of

2 purchase.

3 MR. COMMON: That is true.

4 MR. BURKATOR: So you say this gives at least

5 45 variations. For all I know --- I am not a

6 mathematician -- it may give many times that number, and

7 so it is perfectly true that as set up it becomes extremely

8 difficult to figure exactly, precisely to the second or

9 third decimal point with the effective of time rate of

10 interest is.

11 On the other hand, some of those some of those

12 elaborations likely aren't necessary.

13 MR. COMMON: I think the complication that the

14 conditional sale vendor meets on this thing is the addition

15 to the rate of interest, per cent, to a lot of these other

16 obscure service charges such as insurance. They have

17 some sort of a fund they need to call -- I know years ago,

18 whether they do it now I am not in a position to say, but

19 many years ago the finance company would charge 10 dollars

20 as an insurance fund in case the paper went bad. From

21 one deal this would be built up into hundreds and hundreds

22 of dollars as a sort of insurance fund in favour of the

23 dealer, and he could get that money. Now whether that is

24 true or not today, I am not in a position to say.

25 They used to call it a participation fund, I think is

26 what it was. I am not sure whether it is still the same

27 but in leads to this complication that you are talking

28 about, Mr. Burkator, but I am not a

29 specialist and so I am not sure whether it is

30 it is a very complicated thing, but I am not a



1 impossible to figure out the rate of interest frankly
2 doesn't impress me very much.

3 MR. BUKATOR: Well, I am not disagreeing with
4 that, but I am saying that some lenders have found it
5 desirable to make the computation extremely complica-
6 ted.

7 MR. COMMON: By the addition of these others . . . ?

8 MR. BUKATOR: And I might say to the point
9 that a mathematician would take a very long time to
10 reckon exactly what the true interest rate was.

11 MR. MacDONALD: Well, the function of legislation
12 may be then to exclude some of these extra charges that
13 are of questionable validity, so that you have a situation
14 that can be corrected.

15 I must say that Mr. Common expressed it with
16 much more erudition exactly the point that I was trying
17 to make.

18 MR. LAWRENCE: Is it your view that the regula-
19 tion, or the regulatory field would be strictly federal?

20 MR. COMMON: No, no.

21 MR. LAWRENCE: It could be either.

22 MR. COMMON: Some aspects might be -- some
23 aspects might be. That is the difficulty.

24 MR. LAWRENCE: Yes.

25 MR. COMMON: Full disclosure, I think is purely
26 provincial.

27 MR. LAWRENCE: The Department recently has under-
28 taken an appeal to the Supreme Court of Canada and --

29

30



1. The Commission on the Law of the Sea

2. It is not impressed me very much.

3. MR. BUKATOR: Well, I am not disagreeing with

4. that, but I am saying that some lawyers have found it

5. desirable to make the commission extremely simple-

6. after

7. MR. COMMON: By the addition of these others

8. MR. BUKATOR: And I might say to the point

9. that a mathematician would take a very long time to

10. reckon exactly what the true interest rate was.

11. MR. MACDONALD: Well, the function of legislation

12. may be then to exclude some of these extra charges that

13. are of questionable validity, so that you have a simple

14. that can be corrected.

15. I must say that Mr. Common addressed it with

16. much more erudition exactly the point that I was trying

17. to make.

18. MR. LAWRENCE: As it seems that the regula-

19. tion, or the regulatory field would be strictly federal?

20. MR. COMMON: No, no.

21. MR. LAWRENCE: I am not sure.

22. MR. COMMON: Some aspects might be -- some

23. aspects might be. That is the difficulty.

24. MR. LAWRENCE: Yes.

25. MR. COMMON: Well disclosed, I think is purely

26. regulatory.

27. MR. LAWRENCE: The Department recently has under-

28. taken an appeal to the Supreme Court of Canada and --



1 MR. COMMON: Well, it was argued last week
2 on the Unconscionable Transactions Act. That won't be
3 down for some months.

4 MR. LAWRENCE: Did the Department do this or did
5 they use an outside agent?

6 MR. COMMON: No, We did it. We used Mr. Pepper
7 who was with us. He was a --

8 MR. LAWRENCE: Well, what I am getting at
9 is somebody then has done a fair amount of research work
10 on these aspects of constitutionality. I would hope
11 that we would have the benefit

12 MR. COMMON: The judgment of the Court --
13 yes, yes -- that must be available to the Committee. The
14 judgment of the Court of Appeal on that particular case
15 -- was a very learned judgment, and I think
16 all the constitutional points . . .

17 MR. LAWRENCE: You say, the judgment?

18 MR. COMMON: The judgment of the Court of
19 Appeal of Ontario.

20 MR. LAWRENCE: Oh, the Court of Appeal.

21 MR. COMMON: . . . of Ontario. It was a very
22 learned judgment. We lost, of course there, and I
23 don't know whether I should express publicly what our
24 views are on our success in Ottawa, but you
25 may guess what they are. The judgement of the Court
26 of Appeal, I think, rounds out very well the constitution-
27 al aspects of this. But of course bearing in mind that
28 that was on the pith and substance. That was a question
29 of rate interest and nothing else. There is very little
30 on the question of disclosure or the regulatory juris-



1 MR. COMMON: Well, it was argued last week
2 on the Unconstitutional Question Act. That would be
3 down for some months.
4 MR. LAWRENCE: Did the Department do this or did
5 they use an outside agency?
6 MR. COMMON: No, we did it. We used the Program
7 who was with us. He was a --
8 MR. LAWRENCE: Well, what I am looking at
9 is somebody there does a fair amount of research work
10 on these aspects of constitutionality. I would hope
11 that they would be able to do this.
12 MR. COMMON: The judgment of the Court --
13 yes, yes -- that must be available to the Committee. The
14 judgment of the Court of Appeal on that particular case
15 is available to the Committee. I would
16 like the constitutional points.
17 MR. LAWRENCE: You say, two points?
18 MR. COMMON: The judgment of the Court of
19 Appeal of Ontario.
20 MR. LAWRENCE: On the Court of Appeal.
21 MR. COMMON: . . . of Ontario. It was a very
22 learned judgment. We lost, of course there, and I
23 don't know whether I should express publicly what our
24 views are on our success in law, but you
25 may guess what they are. The judgment of the Court
26 of Appeal, I think, made out very well the constitution-
27 al aspects of this. But of course bearing in mind that
28 that was on the plain and unadorned. That was a question
29 of law, and the Court of Appeal, I think, was very clear
30 in its judgment.



1 of it within the province, as incidents of legislation.

2 MR. LAWRENCE: I think we are going to be a
3 little further afield than merely disclosure.

4
5 MR. COMMON: Yes.

6 MR. LAWRENCE: I think we are really going to get
7 to some conclusion as to the regulatory aspects of the thing
8 too.

9 I think the
10 constitutionality of the province versus the federal

11
12 is going to be one of the main stumbling blocks,
13 and I for one would like, before we go any further, to have
14 somebody preferably from the Department go into the question
15 of constitutionality of the legislation, both regulatory and
16 disclosure.

17 MR. COMMON: Well, of course, with the utmost
18 respect to the Committee I don't suppose you can make
19 a decision on the constitutionality of the question of
20 disclosure or regulation.

21 MR. LAWRENCE: I think we have to have some pretty
22 learned opinion given to us so we can decide whether
23 a certain element of this Committee should recommend leg-
24 islation for, or not recommend legislation.

25
26 MR. COMMON: Well,

27
28 MR. LAWRENCE: If not, if it is a federal thing,
29 it may be up to us --

30



MR. LAWRENCE: I think we are going to be a

little further ahead than merely discussing.

MR. COMMON: Yes.

MR. LAWRENCE: I think we are really going to

I think the

constitutionality of the province versus the federal

is going to be one of the main standing blocks

and I for one would like, before we go any further, to have

somebody preferably from the Department go into the question

of constitutionality of the legislation, both regulatory and

otherwise. MR. COMMON: Well, of course, with the utmost

respect to the Committee I don't suppose you can help

a decision on the constitutionality of the question of

discussions of legislation.

MR. LAWRENCE: I think we have to have some more

opinion given to us so we can decide whether

a certain element of this Committee should recommend leg-

islation that is not recommend legislation.

MR. LAWRENCE: If not, it is a Federal thing

it may be up to us --



1 MR. COMMON: Well, we would be very happy to
2 make available to the Committee, Mr. Chairman,
3 any briefs or any information we have on the topic of
4 the constitutional aspects which we went into
5 very, very thoroughly on the Unconscionable Transactions
6 Act and -- well this probably covers this whole area, but
7 I think it would be helpful to the Committee.

8 THE CHAIRMAN: You have copies of them?

9 MR. COMMON: I beg your pardon, sir?

10 THE CHAIRMAN: Can you get us copies?

11 MR. COMMON: Oh yes, indeed. We
12 will see that we have copies for every member.

13 MR. LAWRENCE: I don't know whether I should
14 ask you this question or not, because this may be part
15 of government policy,
16 but do you think the mortgage legislation that was passed
17 in the legislature in the last 10 years
18 is working out in practice or not?

19 MR. COMMON: Well, Mr. Richards is here, and
20 I would rather . . .

21

22

23 MR. COMMON: Well, I think it is, yes.
24 I think it has worked out extremely well, and I think
25 that it has cured, not one hundred per cent by any means,
26 but to a great deal, a lot of the vices in the system
27 at the time of legislation.

28 THE CHAIRMAN: Does the Committee wish to
29 ask Mr. Common questions?

30 Mr. Irwin?



1 MR. COMMON: Well, we would be very happy to

2 available

3 any details or any information we have on the topic of

4 the constitutional aspects which we went into

5 very, very thoroughly on the Unconstitutional Transactions

6 Act and -- well this probably covers this whole area, but

7 I think it would be helpful to the Committee.

8 THE CHAIRMAN: You have copies of that?

9 MR. COMMON: I beg your pardon, sir?

10 THE CHAIRMAN: Can you get us copies?

11 MR. COMMON: Oh yes, indeed. We

12 will see that we have copies for every member.

13 MR. LAMMONT: I don't know whether I should

14 ask you this question or not, because this may be part

15 of government policy.

16 But do you think the mortgage legislation that was passed

17 in the legislature in the last 10 years

18 is working out in practice or not?

19 MR. COMMON: Well, Mr. Lamont is here, and

20 I would rather . . .

21 MR. COMMON: Well, I think it is, yes.

22 I think it has worked out extremely well, and I think

23 that it has suited, not one hundred per cent by any means,

24 but to a great deal, a lot of the ideas in the system

25 at the time of legislation.

26 THE CHAIRMAN: Does the Committee wish to



1 MR. IRWIN: I have no questions.

2 MISS WYSOCKI: Mr. Chairman,

3 THE CHAIRMAN: Oh yes, Miss Wysocki?

4 MISS WYSOCKI: May I point out that some views

5 have been expressed on the constitutionality of the

6 federal bill on of Senator Croll. If some of the members

7 are interested the constitutional views are expressed in the

8 Senate debate on April the 3rd, 1962, on page 431.

9 It is gone into quite thoroughly, and the viewpoints of

10 the Deputy Minister of Justice and the Minister of Justice,

11 Mr. Varcoe are set out there.

12 Then, Mr. MacDonald mentioned the matter of the

13 mathematical problem in indicating a percentage of the

14 interest, and that is fully discussed in the Senate debate

15 of November the 1st, 1962, on page 191.

16 THE CHAIRMAN: Maybe we can get a few more

17 copies.

18 MISS WYSOCKI: Yes, I think that the secretary

19 is going to get some, but I thought I would just refer

20 these matters to you.

21 THE CHAIRMAN: Thank you very much.

22 MR. LAWRENCE: There was a speech just last

23 week in the Commons by Mr. Ryan here in Toronto for

24 Senator Croll, in his old riding of Spadina. I am sure

25 Senator Croll had a lot to do with the drafting of the

26 speech.

27 THE CHAIRMAN: Yes.

28 MR. LAWRENCE: He sets out the main feelings

29 and views with regards to the difference between the

30 operation of the Small Loans Act, and an instalment fund,



MR. IRWIN: I have no objection.

THE CHAIRMAN: All right, Mr. Irwin.

MISS WESSON: May I point out that one of the

have been expressed on the constitutionality of the

Federal bill on the Senator's bill. In some of the reports

are interested the constitutional views are expressed on

Senate debate on April 2nd, 1906, on page 101.

in its general character, and the importance of

the Deputy Director of Justice and the Minister of Justice

Mr. Vance are set out there.

Then, Mr. MacDonnell mentioned the matter of the

mathematical problem in indicating a hypothesis of the

interest, and that is fully discussed in the Senate debate

of November 1st, 1906, on page 101.

THE CHAIRMAN: Now we can go a few more

pages.

MISS WESSON: Yes, I think that was necessary.

is going to get some, but I think I would just refer

those matters to you.

THE CHAIRMAN: Good, you may read.

MR. LAWSON: There was a speech just back

week in the Commons by the Irishman in London for

Senator Griffin in his old speech of 1904. I am sure

Senator Griffin would be in the drafting of the

MR. LAWSON: He says that the main feeling

and views with reference to the difference between the

operation of the United States Act, and an important factor



1 and I think his comments and his history of the federal
2 legislation is very --

3 THE CHAIRMAN: Would be very useful, I am sure.

4 Well, if we have facilities for getting that
5 reproduced for all members we will be glad to do it.

6 I want to -- Yes, Mr. MacKenzie?

7 MR. MacKENZIE: I wonder if I could just answer
8 a question of Mr. Lawrence's.

9 This budget of disclosure is before the U.S.
10 Senate -- Senator Douglas of Illinois has proposed
11 the regulatory -- no, I am sorry -- disclosure of interest
12 as a simple rate of interest and there is a great deal
13 of literature pro and con.

14 THE CHAIRMAN: Are they current hearings?

15 MR. MacKENZIE: I has been going for about three
16 years, I think. It is still before the current Senate,
17 let us put it that way.

18
19 THE CHAIRMAN: Well, in the event that Mr.
20 Common has to get away, I want to take this opportunity
21 of thanking him very much for being with us today, and
22 also for the assistance and co-operation and his Depart-
23 ment in arranging for the people to appear from that
24 Department today, tomorrow and on Wednesday. Without
25 their assistance, it would not have been possible for the
26 Committee to get underway as quickly as we have, and we
27 own them our thanks for assisting us.

28 We now have Mr. Richards with us, the Super-
29 intendent of Insurance, and we would be pleased if he
30 would come up and . . .



and I think his comments and his history of the Federal

THE CHAIRMAN: Would be very useful, I am sure.

Well, if we have facilities for getting that

reproduced for all members we will be glad to do it.

I want to -- Yes, Mr. MacKenzie.

MR. MACKENZIE: I wonder if I could just answer

a question of Mr. Lammont's.

This matter of disclosure in connection with

Senate -- Senator Douglas of Illinois has proposed

the registry -- no, I am sorry -- disclosure of interest

as a simple case of interest and there is a great deal

of literature on it and some

THE CHAIRMAN: Are they current literature?

MR. MACKENZIE: I have been going for about three

years, I think. It is still before the current Senate.

Let me put it that way.

THE CHAIRMAN: Well, it is a good thing

Common has to get away, I want to take this opportunity

of thanking him very much for being with us today, and

also for the assistance and cooperation and his assistance

and in arranging for the people to appear from that

department today, tomorrow and on Wednesday. Without

their assistance, it would not have been possible for the

Committee to get underway as quickly as we have, and we

own them our thanks for assisting us.

We now have Mr. Richards with us, the Supp-

lement of Indiana, and we would be pleased if he



1 MISS WYSOCKI: May I get some extra copies?

2 THE CHAIRMAN: We have copies here of the --

3 MISS WYSOCKI: Yes, I have a few more.

4 THE CHAIRMAN: No, I am sorry we haven't copies.

5 You just go right ahead then Mr. Richards. We
6 are very pleased to have you here today.

7 MR. RICHARDS: Mr. Chairman, I must apologize
8 for having no written submission. I was away last week
9 and didn't have an opportunity to prepare one. But I
10 have Mr. Jaffray, the Deputy Superintendent who will
11 have a written submission as regards credit unions; and
12 Mr. Simone as regards the working of the Mortgage Brokers'
13 Act and the Collection Agencies Act. Now these are the
14 only Acts that are administered by the Department, which
15 I really feel have any direct affect on either the cost
16 of credit or the disclosure of credit; on mortgages and
17 so on, or sales or any other features. We have the
18 Insurance Act, the Prepaid Hospital Act and the Real
19 Estate -- and this is Brokers' Act. None of these Acts
20 really affect or provide for the regulation or
21 the disclosure as regards interest rates or the cost of
22 credit. They are designed, in the main, to preserve the
23 financial solvency of companies coming under those Acts;
24 and to see that their services are sold properly.

25 I think that the same thing can be said about
26 Loan and Trust Act and the Investment Contracts Act.

27 Under the Loan and Trust Corporations Act, we
28 don't register any loan corporation -- any finance
29 corporation. The loan corporations that are registered under
30 the Loan and Trust Corporations Act are those that, in the



MISS WYCKOFF: May I get some extra copies?

THE CHAIRMAN: We have copies here of the

THE CHAIRMAN:

THE CHAIRMAN: No, I am sorry we haven't copies.

You just do it right ahead when Mr. Richardson.

are very pleased to have you here today.

MR. RICHARDSON: Mr. Chairman, I must apologize

for having no written submission. I was away last week

and didn't have an opportunity to prepare one. But I

have Mr. Jeffrey, the Deputy Superintendent who will

have a written submission on records credit history; and

Mr. Stone as regards the working of the Mortgage Records

Act and the Collection Agencies Act. Now these are the

only Acts that are administered by the Department, which

I really need have any direct effect on either the cost

of credit or the disclosure of credit. The mortgages and

as one or sales or any other business. We have the

Insurance Act, the Federal Hospital Act and the Real

Estate -- and that is known as the Home of these Acts.

really direct or provide for hospitalization.

the disclosure as regards interest rates on the cost of

credit. They are designed, in the main, to preserve the

financial solvency of companies dealing under these Acts;

and to see that their relations are sold properly.

I think that the same thing can be said about

Loan and Trust Act and the Federal and Contract Act.

Under the Loan and Trust Corporation Act, we

and the Federal and Trust Corporation Act.

and the Federal and Trust Corporation Act.

and the Federal and Trust Corporation Act.

and the Federal and Trust Corporation Act.



1 main, invest in real estate mortgages. They are very
2 strictly limited to investing -- at least 95 per cent of
3 their mortgages have to be first mortgages, and they
4 really are not in the second mortgage field, or, any
5 of these subsidiary mortgages which have been a problem
6 in the past few years.

7 The same thing applies to the Investment
8 Contracts companies. That Act is designed to protect
9 largely these people who invest money with these companies,
10 rather than to protect the public with whom they invest.
11 They invest a considerable amount of money in mortgages;
12 but here again, it is nearly all in first mortgages where
13 the interest rate is clearly stated, and there is no
14 problem there at all.

15 The Department possibly has some views as a
16 result of administering some of these Acts, and I am not
17 sure whether your Committee is interested in what our
18 personal opinions would be, as to what might be a proper
19 maximum rate of interest for credit in the form of second
20 or third mortgages, investment instalment purchases
21 and so on. But, I think perhaps you would be interested
22 in the fact that, credit unions, for instance, very
23 generally lend money extensively at a rate of one per
24 cent month on the diminishing balance, which is roughly
25 12 per cent per year. At the same time, most credit
26 unions, as a result of those operations are able to
27 give substantial returns of interest paid under those
28 conditions, So that in the final analysis, credit unions
29 probably lend money at a rate that varies say from 8
30 per cent, 9 per cent, somewhere around there.



in, invest in real estate mortgages. They are very
reluctantly limited to investing -- at least 25 per cent of
their mortgages have to be first mortgages, and they
really are not in the second mortgage field, or any
of these subsidiary mortgages which have been a problem
in the past few years.

The same thing applies to the Government
Contractor companies. That Act is designed to protect
largely these people who invest money with these companies,
rather than to protect the public with whom they invest.
They invest a considerable amount of money in mortgages.
But here again, it is nearly all in first mortgages where
the interest rate is clearly stated, and there is no
problem there at all.

The Government generally has some view as to
result of administering some of these Acts, and I am not
sure whether your Committee is interested in that or
personal opinions would be as to what might be a proper
maximum rate of interest for credit in the form of second
or third mortgages, investment installment purchases
and so on. But, I think perhaps you would be interested
in the fact that, credit which, for instance, very
generally lend money extensively at a rate of one per
cent month on the declining balance, which is roughly
12 per cent per year. At the same time, most credit
institutions, as a result of recent operations are able to
give substantial returns of interest paid which these
conditions. So that in the final analysis, credit which
generally lend money at a rate that varies say from



1 I appreciate the credit unions operate on more
2 favourable conditions in some ways than commercial lenders
3 can, in that they often get their expenses a great deal
4 lower. They often get free premises. A lot of their
5 directors and committee members operate for little or
6 no remuneration. But at the same time, the banks, general-
7 ly speaking lend money on personal loans at approximately
8 the same rate. These loans that are advertised at six per
9 cent discounted, have, in effect, an effective rate. This
10 is something over 12 per cent. It is approximately
11 the same asking rate that the credit unions lend money at.
12 I think this rate of 12 per cent compares with the general
13 rates, I think, for instalment payments and so on, and
14 something running from maybe sixteen to about twenty per
15 cent.

16 I know you are interested in the question of
17 disclosure of cost credit, and there seem to be probably,
18 only two ways in way the cost of credit can be shown.

19 One, of course, is the method of showing the
20 total cost in credit in terms of dollars. What did it
21 actually cost? As was explained earlier, there are
22 a number of provincial, or some provincial bills that
23 have endeavoured to do this. I would think that, possibly,
24 showing the cost of credit in the terms of the actual
25 dollar amount paid for that credit is of some value on
26 say instalment purchases that don't go over a very great
27 lengths of time. The person probably wants to know more
28 what he is -- the additional amount he is paying, because
29 he is borrowing money, rather than what the rate of
30 interest is. But, this can be really quite confusing,



I appreciate the credit which is given on more
favourable conditions in some ways than commercial banks
can, in that they often get their expenses a great deal
lower. They often get their premises. A lot of their
directors and committee members operate for little or
no remuneration. But at the same time, the bank, generally
if speaking lend money on personal loans at approximately
the same rate. These loans that are advertised at six per
cent discounted, have, in effect, an effective rate. This
is something over 12 per cent. It is approximately
the same as the rate that the bank, which lend money at.
I think this rate of 12 per cent compares with the normal
rate, I think, for investment, particularly so, and
concerning running their business at about twenty per
cent.
I know you are interested in the question of
discounting of credit, and there seem to be probably
only two ways in which the cost of credit can be shown.
One, of course, is the method of showing the
total cost in credit in terms of dollars. That is, if
actually cost? As was explained earlier, there are
a number of provisions, or some provisions, which that
also are deducted to the bank. I would think that, possibly
showing the cost of credit in the terms of the actual
dollar amount paid for the credit is of some value on
any business, particularly that which is not a very great
length of time. The bank, probably would be known more
what he is -- the additional amount he is paying, because
he is paying more, rather than the rate of



1 because the cost of credit at any particular interest rate,
2 of course, depends on the time that that money is
3 borrowed. For instance, I have a small example here of
4 a man borrowing six hundred dollars, and he repays that
5 in 20 payments of \$36.00 a month. That is \$720.00; and
6 so his cost of credit is \$120.00. Now, that works out
7 on that basis as an average rate of approximately 26 per
8 cent. On the other hand, if he were to pay 36 payments
9 instead of 20 payments; if he were to pay 36 payments
10 at \$20.00 each, and spread his payments over three years,
11 he would still pay exactly the same cost of credit which
12 would be \$720.00. But, his interest rate in that case
13 would only be 13.2 per cent, because he has the money for
14 a longer time.

15 So, consequently, when you express the cost of
16 credit in terms of the additional money costs, it can be
17 very misleading, I would say.

18 The other way, of course, is to express it as
19 a rate of interest per annum; and as has been pointed out,
20 there are difficulties involved in that. Mr. Simone will
21 tell you a little later on some of the difficulties we
22 have had in trying to have the rate of interest on second
23 mortgages shown in a statement of mortgage form that we
24 require mortgagees to present to the mortgagors. We have
25 really quite arbitrarily; in order to show some actual
26 rate of interest, we have had, quite arbitrarily, had to
27 establish a basis on which this is calculated.

28 We know that in actual fact this basis in most cases
29 is not accurate. We justify it in that this rate that will
30 be shown will, in actual fact be less in the majority of



of course, depends on the time that that money is

repaid. For instance, I have a small example here of

a man borrowing six hundred dollars, and he repays that

in 30 payments of \$20.00 a month. That is \$600.00; and

so his cost of credit is \$120.00. Now, that works out

on that basis as an average rate of approximately 20 per

cent. On the other hand, if he were to pay 30 payments

instead of 30 payments, if he were to pay 30 payments

at \$20.00 each, and spread his payments over three years,

he would still pay exactly the same rate of credit which

would be \$120.00. But, his interest rate in that case

would only be 13.2 per cent, because he has the money for

20, consequently, when you express the cost of

credit in terms of the additional money which is used to

very misleading, I would say.

The other way, of course, is to express it as

a rate of interest per annum; and as has been pointed out,

there are difficulties involved in that. Mr. Ransom will

tell you a little later on one of the difficulties.

have had in trying to have the rate of interest on second

mortgages shown in a statement of mortgage flows that we

require mortgages to present to the mortgagee. We have

really quite definitely in order to show some relation

rate of interest, we have had, quite arbitrarily, had to

establish a basis on which this is calculated.

We know that in second fact, this basis in most cases



1 cases than the real rate of interest on a particular
2 mortgage. But, any rate of interest, you have to consider
3 the repayments of principal and it is not too easy to
4 calculate what the actual rate of interest is on a
5 particular repayment plan. Most of the mortgage brokers
6 deal with this firm in Boston who have tables, and they
7 can show you if you pay so much a month for so many months,
8 the rate of interest on that is so much.

9 But, when we ask them to give us a formula which
10 which we could apply on our mortgage form, they came
11 out with something that looks a little bit like Einstein's
12 theory, and we were quite sure that the average mortgage
13 broker couldn't possibly work out an actual interest rate.
14 So, we established a simple and reasonably accurate
15 method of showing the approximate interest rate. I think,
16 possibly, some of the difficulties involved in getting
17 this rate are not as important as possibly one would
18 gather, because when you have three different people
19 calculating the interest rate under particular circumstances
20 and they come up with three different answers; the
21 differences in the answers are probably not too significant.
22 One person may say it is 13.5 per cent; another person
23 will say it is 13.3; another might say it is 14.2.
24 For purposes of disclosure to a borrower, I would suggest
25 that those are not too important.

26 If I could make a suggestion, I would -- I
27 feel that what the Committee are hoping for is at least
28 some bill that will provide some form of disclosure, and
29 that certainly for longer terms of credit, the only way
30 that you could show any adequate cost of that credit is



cases than the real rate of interest on a particular
mortgage. But any rate of interest, you have to consider
the repayments of principal and it is not too easy to
calculate what the actual rate of interest is on a
particular repayment plan. Most of the work that we
deal with this time in London who have called, and they
can show you if you pay as much a month for so many months
the rate of interest on that is so much.
But, when we ask them to give us a formula
which we could apply on our mortgage form, they come
out with something that looks a little bit like this:
there, and we were quite sure that the average mortgage
broker couldn't possibly work out an actual interest rate.
So, we established a simple and reasonably sound
method of showing the approximate interest rate. I think
possibly, some of the difficulties involved in getting
this rate are not as important as possibly one or two
others, because when you have those of recent people
and they come up with these different matters, the
differences in the answers are probably not too significant.
One person may say it is 12.5 per cent; another person
will say it is 13; another might say it is 14.5.
For purposes of discussion, as a compromise, I would suggest
that those are not too important.
If I could make a suggestion, I would -- I
feel that what the Committee are hoping for is at least
some bill that will provide some form of standard, and
that certainly for longer terms of credit, the only way



1 on an annual interest rate. If some particular plan or
2 contract is so complicated, as I quite agree that they
3 can be, I would suggest that those forms of contracts be
4 prohibited because it is certainly not necessary. Any
5 reasonable form of extending credit can be made in a way
6 in which the annual rate of interest can be shown without
7 too much difficulty.

8 MR. BUKATOR: Mr. Chairman, I would like to say --

9 THE CHAIRMAN: Any questions, gentlemen?
10 Mr. Lawrence?

11 MR. LAWRENCE: I was very glad to hear you add
12 that very end piece. You, sir, or your Department does
13 not handle the administration of the Conditional Sales
14 Act?

15 MR. RICHARDS: No.

16 MR. LAWRENCE: ...
17 It would appear to me that because you handled the
18 administration of all these other Acts, Corporation Act,
19 Credit Union and whatnot.

20
21
22 and what not in effect set before the insurance selling
23 agency . . .
24 in your Department. You mainly are the main governmental
25 agency in the credit field as far as the Province of
26 Ontario is concerned. Is that not right?

27 MR. RICHARDS: Well, I wouldn't quite say that,
28 because we don't handle in any way finance companies
29 not for what we are talking about here mainly, I think
30 is consumer finance. And we have no control whatsoever



or an annual interest rate. If some provision plan or
contract is so complicated, as I have agreed that they
can be, I would suggest that the terms of contracts be
prohibited because it is completely unnecessary. Any
reasonable form of extensive credit can be made in a way
in which the annual rate of interest can be known without
too much difficulty.

MR. LAWRENCE: Mr. Chairman, I would like to say
THE Chairman of the Committee.

Mr. Lawrence?

MR. LAWRENCE: I was very glad to hear you say
that very end piece. The only way your Government does
not handle the situation is the conditional sales

It would appear to me that you have handled the

credit issue and interest

and what not in the past but before the insurance selling

in your Department. You mention the state government

agency in the credit issue as far as the practice of

credit is concerned. Is that not right?

MR. LAWRENCE: Well, I wouldn't quite say that,

because we don't have in any way finance company

not for what we are talking about here, I think

is consumer finance. We have no control whatsoever



1 over finance companies.

2 MR. LAWRENCE: But, I mean, the Province does.

3 MR. RICHARDS: The Province does,

4
5
6
7
8 MR. LAWRENCE: Well, I mean any part of the
9 provincial jurisdiction is concerned, you, so far
10 are only able to be

11
12 And this is a development only in the last couple of
13 years in regard to the mortgage field . . .

14 MR. RICHARDS: Yes.

15 MR. LAWRENCE: . . . And the credit
16 union field as well. I have often wondered why in the
17 world your particular Department doesn't go -- this is
18 a policy matter, of course, and I am asking for your
19 opinion.

20
21 Why you don't get into the chattel mortgage and conditional
22 sales field so that you yourselves can then dictate --
23 I am looking for a way of getting around the constitutional
24 element here. You yourself can then dictate the type
25 of agreement that can be registered under the chattel
26 mortgage and conditional sales fields. In this way,
27 right off the bat, you have got a large control of industry,
28 because you could then say that it doesn't -- the very
29 same way we got in the mortgage field -- because it doesn't
30 conform to a certain set Act, then it is non-registerable.



MR. LAWRENCE: Well, I mean any part of the

provincial jurisdiction is concerned, you, as far

are only able to be

And this is a development only in the last couple of

years in regard to the mortgage field.

MR. LAWRENCE: . . . and the credit

which field as well. I have often wondered why in the

world your particular department doesn't go -- this is

a policy matter, of course, and I am asking for your

opinion.

Why you don't get into the credit mortgage and conditions

sales field as far as your commission and then discontinue

I am looking for a way of getting around the constitutional

statement made. The Government can then discuss the type

of agreement that can be negotiated under the changed

workings and conditions sales field. In this way,

right off the bat, you have got a large number of inter-

because you could find out that it doesn't -- the very

same way we got in the mortgage field -- because it doesn't



1 Of course, if it is non-registerable, in a lot of cases
2 it is no darn good. So that here would be an ideal way
3 for you to get into this field and have some regulatory
4 legislation that I don't think could be attacked on
5 constitutional ground at all.

6 That is why I said I was very glad to hear you
7 tack on the end there the -- your own opinion, I would
8 imagine it is your own opinion -- that if the formula
9 is complicated that it should be prohibited. I would
10 hope that perhaps one of the recommendations of this
11 Committee might be to allow you to get into this field
12 so that you can do ---

13 MR. RICHARDS: Yes. I might say, Mr. Chairman,
14 that in the mortgage brokers' field, in administering the
15 Mortgage Brokers' Registration Act, we don't feel that
16 we can really control the rate of interest on second
17 mortgages under that. All we could hope to do, I think,
18 is to see that the mortgages are honestly entered into;
19 that the mortgagor knows what kind of deal he is getting
20 into before he signs any papers. But, as to the interest
21 rate to be paid, we have really no direct control. We
22 have some indirect influence possibly.

23 THE CHAIRMAN: Mr. Bukator?

24 MR. BUKATOR:

25 THE CHAIRMAN: Shall we just go round the table
26 then, Mr. Bukator?

27 Mr. MacDonald? You have no questions?
28 Mr. White?

29 MR. WHITE: Yes, I have a couple. Mr. Richards
30 mentioned that credit unions usually charge one per cent
a month



... it is non-regulatory, in a lot of cases
it is no damn good. So what here would be an ideal way
for you to get into this field and have some regulatory
legislation that I don't think could be sustained on
constitutional ground at all.

That is why I said I was very glad to hear you
back on the end there -- your own opinion, I would
imagine it is your own opinion -- that is the trouble
is complicated that it should be prohibited. I would
hope that perhaps one of the recommendations of this
Committee might be to allow you to get into this field
so that you can do --

MR. ROBINSON: Yes, I might say, Mr. Chairman,
that in the mortgage brokers' field, in administering the
Mortgage Brokers' Registration Act, we don't feel that
we can really control the rate of interest on record
mortgages under that. All we could hope to do, I think,
is to see that the mortgages are honestly entered into;
that the mortgagee knows what kind of deal he is getting
into before he signs any papers. But, as to the interest
rate to be paid, we have really no direct control. We
have some indirect influence possibly.

THE CHAIRMAN: Mr. Robinson?

THE CHAIRMAN: Shall we just go round the table

Mr. Robinson: You have no questions?



1 on a decreasing balance. I have been informed
2 that credit unions charge a lot more than that,
3 which gives rise to two questions: First of all, are
4 credit unions in any way limited as to the interest rate
5 that they can charge to their member borrowers?

6 MR. RICHARDS: Yes. The Act provides a maximum
7 charge of one per cent per month, and, to our knowledge,
8 there aren't any that are charging more than that.

9 MR. WHITE: Do you place that . . .

10 MR. RICHARDS: Yes; re-examining credit unions.

11 MR. WHITE: One per month a month . . .

12 MR. RICHARDS: On certain amounts.

13 MR. WHITE: . . . on the decreasing balance?

14 MR. RICHARDS: On the outstanding balance, yes.

15 MR. WHITE: Is that the way the Act is worded . . .

16

17 MR. RICHARDS: The Act sets out -- in the Act,
18 yes.

19 MR. WHITE: On the decreasing balance.

20 MR. RICHARDS: Well, it doesn't set it out on
21 the decreasing balance, it sets the maximum interest to
22 be charged should be 1 per cent per month.

23 MR. WHITE: Well I mean to say -- that makes
24 a great difference, doesn't it? The difference of about
25 12 per cent and about 24 per cent?

26 MR. RICHARD: Yes, in fact, I am pretty sure --
27 Mr. Jaffray could probably confirm this -- but I am pretty
28 sure that all credit unions charge on the decreasing
29 balance.

30 MR. WHITE: Well, I think that is -- if I am
properly



on a decreasing balance. I have been informed

that credit unions

credit unions in any way limited as to the interest rate

that they can charge to their members' deposits?

MR. RICHARDS: Yes. The Act provides a maximum

charge of one per cent per month, and, to our knowledge,

there aren't any that are charging more than that.

MR. WHITE: Do you place that . . .

MR. RICHARDS: Yes; re-examining credit unions.

MR. WHITE: One per month a month.

MR. RICHARDS: On certain accounts.

MR. WHITE: . . . on the decreasing balance?

MR. RICHARDS: On the outstanding balance, yes.

MR. WHITE: Is that the way the Act is worded?

MR. RICHARDS: The Act says out -- in the Act,

Yes.

MR. WHITE: Of the decreasing balance.

MR. RICHARDS: Well, it doesn't say it out on

the decreasing balance, it says the maximum interest to

be charged shall be one per cent per month.

MR. WHITE: Well, I mean to say -- that makes

a great difference, doesn't it? The difference of about

12 per cent and about 14 per cent.

MR. RICHARDS: Yes, indeed, I am pretty sure --

Mr. Jeffery could probably confirm this -- that I am pretty

sure that all credit unions charge on the decreasing

balance.

MR. WHITE: Well, I think that is -- is it all



1 advised by London bank managers, that is not the case.

2 MR. RICHARDS: Well, we would be glad to hear
3 of any cases

4 MR. WHITE: (Inaudible.)

5 MR. RICHARDS: I would be very surprised if there
6 were any cases. We would be very glad to hear about them.

7 MR. WHITE: Well, what effort do you make to
8 police it? Do inspectors of yours go in and actually look
9 at the outstanding accounts and compute the interest charged?

10 MR. RICHARDS: No, they don't usually compute the
11 interest charge although they might, in some instances, but
12 the overall amount of interest charged in relation
13 to the loans outstanding would indicate that a greater
14 amount than one per cent per month is not generally
15 charged. There might be some small mistakes made in
16 individual cases, but as a general policy, I think--
17 perhaps Mr. Jaffray would have more direct knowledge
18 of that than I, but I am almost certain that as a matter
19 of general policy there is no credit union that charges
20 more than that.

21 THE CHAIRMAN: But, you yourself are not
22 absolutely certain that the law is intended to mean
23 one per cent on the decreasing balance, or one per cent of
24 the total amount borrowed?

25 MR. RICHARDS: My interpretation would certainly
26 be that it is one per cent per month on the amount of
27 money outstanding. Now, where the interest rate might
28 be more in some cases, it would be where a person
29 possibly pays more than once a month. Maybe he pays
30 twice a month, or maybe he will pay one per cent twice



MR. BISHOP: I would be very interested to know
were any cases. We would be very glad to hear about them.
MR. WHITMAN: Well, most effort do you have to

police too? Do inspectors of police in and actually look
at the outstanding accounts and compile the interest charges
MR. BISHOP: No, they don't usually compile the

interest charges although they might in some instances, in
the worst amount of interest charged in relation
to the loans outstanding would indicate that a greater

amount than one can raise per month to not generally
charged. There might be some small mistakes made in
individual cases, but as a general policy, I think

perhaps Mr. Gaffney would have more direct knowledge
of that than I, but I am almost certain that as a matter
of general policy there is no credit where that charge

more than that.
THE CHAIRMAN: But, you would not say
absolutely certain that the law is intended to mean

one per cent on the debt and to be raised, on one per cent of
the total amount borrowed?
MR. BISHOP: My interpretation would certainly

be that it is one per cent per month of the amount of
money outstanding. Now, when the interest rate might
be more in some cases, it would be where a person

possibly pays more than once a month. Where he pays
twice a month, or where he will pay one per cent twice



1 a month. That could happen in individual cases, possibly.

2 MR. MacDONALD: Mr. Chairman, if I may? Our present
3 Act states specifically, interest together with all charges
4 and penalties which shall not exceed one per cent per
5 month on the unpaid balance of any loan. This is definitely
6 calculated on the reducing balance.

7 MR. WHITE: Well, to move on; it seems to
8 me, sir, that there should be some type of audit made
9 because taking the deal from monies outstanding, will not,
10 in themselves indicate whether or not all those contracts
11 comply with the law. I think it is true that in some
12 cases credit union members may borrow less than one per
13 cent; whereas if the load seems proportionately greater,
14 the credit union will charge a very fancy figure. By that,
15 I mean, something like one per cent per month on the
16 initial monies forwarded. You see, it could be maybe
17 23 or 24 per cent of the outstanding balance.

18 MR. RICHARDS: No. The usual way of collecting
19 by a credit union is to charge up the interest monthly
20 and usually to collect the interest money monthly, to go
21 into the principal thing.

22 I think Mr. Jaffray will be able to confirm this
23 -- that we are pretty certain that it is a very, very rare
24 case where anybody pays more to a credit union than one
25 per cent a month. The credit unions have not the same
26 competitive instinct to make money. What they are doing
27 is providing a service for their members, and there is
28 no incentive to over-charge and to break the law, in fact.

29 MR. WHITE: Well now, may I mention one point?
30 You mentioned that instalment purchasing usually carries



1 an interest rate of say 16 to 20 per cent. Was this a
2 matter of personal observation? Or, is this the result
3 of some study that you have made, or, is it the result
4 of certain records kept by your Department?

5 MR. RICHARDS: No. It is the result -- in
6 actual fact, it is a recollection of some figures which
7 were taken off some time ago in comparing credit union
8 charges with other forms of financing. It may change.
9 It may be either more or less now now. It varies
10 quite considerably, I believe.

11 MR. WHITE: And were you intending that that
12 was the effective rate or true rate when you say
13 16, to 20 per cent?

14 MR. RICHARDS: Yes, the effective rate, yes.

15 MR. WHITE: And that would compare to an effect-
16 ive rate of 12 per cent for the credit union.

17 MR. RICHARDS: Yes. Approximately 12 per cent.

18 MR. WHITE: Well, Mr. Chairman, the comments
19 made by Mr. MacKenzie and by Mr. Richards I think point out
20 the great importance of the members of this Committee
21 learning the terminology in this field, because Mr.
22 MacKenzie, in his submission, I am perfectly
23 sure -- without any intention to deceive, made
24 reference to certain maximum interest which I think
25 know to be per month, whereas it appears that that borrower
26 might think they were per annum.

27 A SPEAKER: Whereabouts is that?

28
29 MR. WHITE: That is on -- let me see now --
30



an interest rate of 10 per cent. Now this
pattern of personal observation. On the other hand
of some other way, but not, as is the normal
of certain records kept by the government.

MR. RICHARDS: Now, is it the result of the
actual fact, it is a result of some thing which
were taken off some time ago in computing credit and
changes with other forms of things. It may change
it may be either more or less, now. It varies
quite considerably, I believe.

MR. WHITE: And when you say that the
was the effective rate on loans when you say
10, to 20 per cent?

MR. RICHARDS: Yes, the effective rate, was.
MR. WHITE: And that would compare to an effective
rate of 10 per cent for the credit union.

MR. RICHARDS: Yes, approximately 10 per cent.
MR. WHITE: Well, Mr. Richards, the committee

were by Mr. MacKenzie, I think, I think he said
the great importance of the members of the committee
leaving the committee in this kind of position.

MacKenzie, in fact, I am not sure, but
-- without any doubt, we should, we should
reference to certain things, I think, which I
know to be per se, and it appears to be a fair way
might think they were per se.

A CHAIRMAN: Mr. Richards, is that?

MR. WHITE: That is all -- for me now --



1
2
3 Now, I know very well Mr. MacKenzie wasn't
4 pretending that was an annual charge. On the other hand,
5 the members of this Committee are very new in this field,
6 and unless it is very, very clearly stated, it seems to
7 me there is going to be a lot of confusion.

8 In Mr. Richard's oral presentation, there is a
9 similar ambiguity about effective interest -- flat
10 interest charges, simple interest charges and such like.
11 For instance, Mr. Richards said that some banks charge
12 six per cent discounted, for instance on the effective
13 rate of 12 per cent. That isn't necessarily the case.
14 If a man borrows a hundred dollars at six per cent
15 discounted, and he pays a year from today, he gets \$94.00.
16 That is the idea of that term "discounted". And, a year
17 from today, he is required to pay back a hundred dollars.
18 The effective interest rate in this case would be something
19 over six per cent; perhaps six and a half per cent --
20 six and three-quarter per cent.

21 Whereas if that same borrower were required to pay it back in
22 equal monthly instalments, it would be not only discounted,
23 but it would be -- he would be paying
24 the full amount borrowed, although he repaid it in average
25 in about half that length of time. Then the true rate of
26 interest would be something over 12 per cent. So, I just
27 put that by way of suggestion to the Committee, sir.
28 If we might have an economist or a mathematician or an
29 expert in financial loaning come in and explain the
30 terminology; and perhaps with a blackboard, run through



Now, I know you will be familiar with the
proceeding which was on a local level. On the other hand,
the members of this Committee are very new in this field
and unless it is very, very clearly stated, it seems to
me there is going to be a lot of confusion.

In Mr. Alexander's oral presentation, there is a

similar ambiguity about effective interest -- that

interest changes, stable interest charges and such like.

For instance, Mr. Alexander said that some banks charge

six per cent effective, 7 1/2 per cent on the effective

rate of 12 per cent. That is not necessarily the case

if a man borrows a hundred dollars at six per cent

monthly, and he pays a year from today, he pays \$60.00.

That is the case on that "effective", and a year

from today, he is required to pay back a hundred dollars.

The effective interest rate in this case would be something

over six per cent; perhaps it was a half per cent --

six and three-quarters per cent.

Whereas if that same borrower were required to pay it back

equal monthly installments, it would be not only dis-
counted

but it would be -- he would be paying

the full amount borrowed, and he would pay it in install-
ments

in about half that I just said. Then the true rate of

interest would be something over 12 per cent. So, I think

that that way of saying it to the Committee, and

if we might have an explanation of a mathematician or an

expert in financial matters in this regard.

Something, and perhaps with a checkbook, you know



1 the different types of contracts.

2 As a matter of fact, Mr. Richards, I don't want
3 to quibble unnecessarily, but I can't confirm that 26
4 per cent. Was it -- did you say it is 26 per cent ---

5
6 MR. RICHARDS: Well, 26 per cent, yes.

7 MR. WHITE: Because . . .

8 MR. RICHARDS: So, just calculation I . . .

9 MR. WHITE: I have a calculation here which
10 may be wrong. I am not a very good mathematician. I
11 think it might be about 17 per cent, but, aside from that
12 I think maybe I have established the point that there are
13 all kinds of way of doing it. It depends on the method
14 ---

15 MR. RICHARDS: Yes. The actual effective rate
16 of interest, of course, depends on under what term the
17 money is being repaid. It varies enormously.

18 money is borrowed for
19 a short time or for a long time.

20 MR. WHITE: May I just make one further point?

21 It has occurred to me that in relation to some-
22 what simplified standard contract for conditional time
23 sales that it might be desirable to simplify the matter
24 further for the people engaged in the transaction
25 by permitting a tolerance. In other words, in the
26 disclosure, instead of saying that the rate of interest
27 charged is 11 per cent, which as you have mentioned, it
28 becomes extremely difficult; almost impossible to compute.

29 Could the Committee decide such legislation
30 would be desirable? Could there not be a tolerance in the



the different types of companies.

As a matter of fact, Mr. Richardson, I don't want
to quibble unnecessarily, but I can't conflict with you.

MR. RICHARDSON: Will you please, yes.

MR. WILSON: Yes, yes.

MR. RICHARDSON: I don't believe I.

MR. WILSON: I don't believe I.

may be wrong. I am not a very good mathematician. I

think it might be that if you want, but, as the fact is,

I think maybe I have established the point that there are

all kinds of way of doing it. It depends on the method

MR. RICHARDSON: Yes. The actual and active and

of interest, of course, depends on what you want.

money is being repaid. It would be extremely

money is borrowed for

a short time or for a long time.

MR. WILSON: May I just make one further point?

It has occurred to me that in relation to some

what simplified method for doing the calculation, the

saves that it might be desirable to simplify the matter

further for one who is not a mathematician.

by presenting a simplified method. In other words, in the

disclosure, instead of stating that the rate of interest

charged is 10 per cent, which as you have mentioned, it

becomes extremely difficult to almost impossible to compare.

It would be desirable to have a table in the



1 bill itself than to mislay plus or minus 25 per cent,
2 if something like that would be all right.

3 Have you ever considered that idea of tolerance?

4 MR. RICHARDS: We have, practically. I don't
5 -- I am not a lawyer. We haven't considered how the Act
6 could be introduced into legislation, but in practical
7 fact we have considered that in administering this Mortgage
8 Brokers' Act. Because, we certainly feel that tolerance
9 of a point or so is really of no great importance to the
10 borrower; particularly when he is paying maybe 24 or 25
11 per cent. It really doesn't make any difference to him
12 whether it is 23, 24 or 25.

13 MR. WHITE: It's a fair question. Have you rate
14 of tolerance established in the Department
15 to that Act?

16 MR. RICHARDS: No, I -- well, I would say within
17 a point or so. I think there is a great of difference
18 between six and seven per cent; but there is very little
19 difference between 16 and 17 per cent or 20 and 22 per
20 cent.

21 MR. WHITE: Well Mr. Richards, I don't know if
22 I can see that point. One per cent is one per cent.

23
24 THE CHAIRMAN:

25 MR. MacKENZIE: I would just like to point out
26 in the wording of the Alberta new amendment, they do have
27 what you are talking about, as the equivalent of simple
28 interest to the nearest full number which is in effect
29 at the time.

30 THE CHAIRMAN: Anything further, Mr. Reilly?



1 MR. REILLY: No, thank you.

2 THE CHAIRMAN: Mr. Reilly? Mr. Letherby?

3 Mr. Noden? Mr. Hoffman?

4 MR. HOFFMAN:

5

6 THE CHAIRMAN: Well, if there are no other
7 questions Mr. Richards, thank you very much for being
8 with us today; and we would ask Mr. Jaffray to say a
9 few words.

10 MISS WYSOCKI: May I distribute the briefs?

11 THE CHAIRMAN: Yes, surely.

12 MR. JAFFRAY: Mr. Chairman, Madame Secretary,
13 Committee members; Miss Wysocki: My terms of reference
14 were set down as given at the outset of my paper.

15 Do you wish me to read it, or --

16 THE CHAIRMAN: Fine.

17 MR. JAFFRAY: Credit union development origin-
18 ated in Europe; England, Germany, France, Belgium and
19 Italy, all producing leaders early in the nineteenth
20 century. Alphonse Desjardins, a French-speaking Canadian
21 first introduced the credit union idea to North America.
22 The credit unions he founded were, and are called "caisse
23 populaires". I mention that because we have caisse
24 populaires in Ontario that are credit unions. They come
25 under our Credit Unions Act, incorporated under provincial
26 laws, in other words and are treated exactly the same as
27 credit unions.

28 Desjardins acknowledged his
29 indebtedness on the subject to the English writer
30 Henry W. Wolfe. However, two Germans, Hermann Schultz



MR. LEBLANC: No, of course not.

THE CHAIRMAN: Mr. LeBlanc, Mr. LeBlanc?

MR. LEBLANC:

THE CHAIRMAN: Well, if there are no other

Committee members: With respect to the form of reference

were set down as given at the onset of my paper.

Do you wish me to read it, or --

THE CHAIRMAN: Please.

MR. LEBLANC: Certain union development origin-

ated in Europe, England, France, Belgium and

Italy, all producing foodstuffs early in the nineteenth

century. After the beginning of the Franco-German

first introduced the credit union idea to North America.

The credit union has been used, and the "credit union"

movement. I want to say that because we have called

populations in Canada and the credit union. They have

under our credit union act, incorporated under provincial

law, in other words and are needed exactly the same as

credit unions.

Parliamentary

On the subject of the English which

Emily W. Potter, London, England, 1911.



1 and Frederick William Seisson were
2 the real pioneers in the trade union field. Seisson's
3 ideas and principles have exerted the strongest influence
4 on the development of credit unions in the United States
5 and the American development is, in turn, very influential
6 in Ontario, as indeed are American practices in other
7 fields, including the one under study. Seisson
8 laid the foundations of our credit unions and when
9 for the first time, he declared charter to non-poverty
10 was to be the factor determining membership in his
11 societies.

12 At the outset, in Europe, wealthy patrons
13 provided the money for loans to the working classes, and
14 they did this with the best of intentions. Strangely
15 enough, the working classes themselves didn't want credit
16 extended on terms, and this approach collapsed in its
17 own way. So, it is very significant that Seisson
18 took a different approach. He gathered together people
19 who were all in the same boat and they put their pennies
20 together and loaned to one another; and the idea took
21 root and flourished. He recognized that just organizing
22 societies dedicated to mutual self-help among poor
23 people of good character was not enough. To give
24 tangible expression to his idea of practical methods
25 had to be found out inducing people to save, processing
26 loans, accumulating and safeguarding capital and handling
27 profits. To accomplish this, his groups among other
28 things restricted membership to small individual groups
29 of people, stressed loan services at low rates, held to
30 an indivisible reserve (which we call a guarantee fund),



...the real picture in the ...
...on the development of credit ...
...and the American development ...
...in Ontario, as indeed ...
...fields, including the one ...
...said the ...
...for the first time, he ...
...was to be the ...
...association.
...At the ...
...provided the money ...
...they did this with the ...
...enough, the ...
...extended on terms, and ...
...own way. ...
...took a different ...
...who were all in the ...
...system and ...
...root and ...
...activities ...
...graphic of ...
...tangible ...
...had to be ...
...loans, ...
...profits. ...
...things ...
...of ...
...an ...



1 and held that officers' services should be free. I
2 thought it worthwhile to mention these things, because
3 our legislation merely incorporates principles that
4 have been developed through trial and error. For instance,
5 our oldest credit unions in Ontario -- it's a *caisse*
6 *populaire* -- it dates back to 1908, and of course, it
7 has close to eight million dollars in assets now. It
8 operated for years without the benefit of any legislation
9 at all; supervision or what have you. These principles
10 have been given legal expression by a Credit Unions Act,
11 and are still the key operative sections of our statute.

12 Section 8, for example, requires a common bond
13 to exist between members.

14 Section 29 provides that interest, together
15 with all charges and penalties shall not exceed one per
16 cent per month on the unpaid balance of any loan -- an
17 effective per annum rate of 12 per cent.

18 And, when it comes to this blended instalment
19 business; and we do see the payments through payroll
20 deduction of say bi-weekly and weekly rates, this does
21 increase, because of the finer -- mathematically relating
22 time to the dollars, and the rate going up slightly.
23 Their promissory notes take cognizance of this, and will
24 vary from 12.63 to 12.68 per cent, so that if a woman
25 goes in default it can't be thrown out after the interest
26 if they have to go to court, because it would have to be
27 stated exactly.

28 Section 28 requires 20 per cent of net
29 yearly profits to be set aside in a guarantee fund as a
30 reserve against losses on loans. In practice, the



and held that official business should be free. I
thought it worthwhile to mention these things, because
our legislation merely incorporated principles that
have been developed through trial and error. For instance,
our oldest credit union in existence -- that is, of course,
population -- its balance sheet for 1908, and of course, it
has close to eight million dollars in assets now. It
operated for years without the benefit of any legislation
at all; supervision or what have you. These principles
have been given legal expression in a credit union act,
and are still the key operative elements of our statutes.
Section 6, for example, provides a common bond
to exist between members,

with all charges and penalties shall not exceed one per
cent per month on the unpaid balance of any loan -- or
otherwise per annum rate of 15 per cent
and, when it comes to the divided interest
between and we do not divide through payment
redemption of any loan -- and weekly rates, that is
increase, because of the time -- and monthly rates relating
time to the column, and the rate going up slightly.
their position, never was a consideration of this, and will
pay from 12.50 to 15.00 per year, no more. If a woman
was in default it could be shown that after the interest
if they have no go to court, because it would have to be
assessed exactly.

Section 10, which is 25 per cent of ...
yearly profits to be set aside in a separate fund as a
reserve against losses on loans. In addition, the



1 shortages are held by the majority of credit unions;
2 although our Act does permit payment to officers.

3 The predecessor of our present Credit Unions
4 Act was the Co-operative Credit Societies Act passed in
5 1922. This Act was not proclaimed until 1928 and was
6 administered by the Provincial Secretary's office.

7 Between '28 and '35, some twenty-five credit
8 unions were incorporated, and, in the early depression
9 years, some of these got into financial difficulties.
10 The Act of that day did not give the government the power
11 to inspect and supervise co-operative credit societies;
12 and, as some were rather deeply involved financially,
13 the government refused to issue any more charters.

14 The whole matter stood as far as the govern-
15 ment was concerned, but the movement continued to grow
16 and expand in a completely voluntary way until in 1939
17 there were at least 50 credit unions operating in Ontario,
18 all but sixteen of them without charge, and some
19 at that date approaching a million dollars in assets.

20 In 1939, the Co-operative Union of Canada,
21 the Ontario Federation of Agriculture and representative
22 of credit unions induced the Honourable P.M. Duwon
23 to introduce a model Credit Union Act based on those
24 in Nova Scotia and Saskatchewan which probably accounts
25 for credit union corporation being based on the memorandum
26 of association procedure, rather than the letters patent
27 procedure.

28 I mention this in passing, because, I am told--
29 I am not a lawyer -- I am told that this memorandum of
30 association procedure follows the English lead in incorp-



shortages are held by the majority of credit unions;

although our Act does provide payment to other unions.

The preference of our present Credit Union

Act was the Co-operative Credit Societies Act passed in

1932. This Act was not repealed until 1937 and was

replaced by the Credit Union Act of 1937.

Between 1937 and 1939 some twenty-five or thirty

unions were incorporated, and in the early thirties

years, some of these went into financial difficulties.

The Act of that day did not give the government the power

to inspect and supervise co-operative credit societies;

and, as some were rather badly invested financially,

the government refused to insure any more of them.

The whole matter stood as for as the govern-

ment was concerned, but the movement continued to grow

and expand in a completely voluntary way until in 1939

there were at least 80 credit unions operating in Ontario.

All but a dozen of them without charge, and some

at that time were receiving financial aid from the

Government.

In 1939, the Co-operative Union of Canada,

the Ontario Federation of Agriculture and Horticulture,

of credit unions joined the Government in Ontario

to introduce a Bill to give the Government power to

inspect and supervise credit unions and to

insure them against loss.

of credit unions provided that within three years

provisions.

I mention this in a general way, because I am afraid

I am not a lawyer -- I am not a lawyer -- I am not a lawyer --

unions have been following the English lead in incorp-



1 oration, and, whereas the letters patent follows the
2 American lead. It is of interest to me as an
3 administrator, because I had difficulty at times with
4 lawyers who were called upon to incorporate credit unions
5 and would make submissions that I couldn't accept because
6 they were following another procedure. Mr. Duwon
7 arranged for the administration and supervision of this
8 programme to be transferred from the Provincial Secretary's
9 Department to that of Agriculture. This is logical, as
10 credit union development at that time was largely growing
11 in other provinces as well as in Ontario, and it was
12 expected that this would hold true.

13 By 1950, it was obvious that credit union
14 growth in Ontario was increasingly urban in nature, and
15 was no longer properly the responsibility of the Department
16 of Agriculture. In 1953, recognition of this fact led to
17 the transfer of credit union supervision and examination
18 to the Department of Insurance where it still remains.

19 There is another slight reason for that being
20 logical - a logical place to transfer them to, was because
21 in insurance we have mutual societies; mutual benefit
22 societies, fraternal societies and that sort of thing
23 which have something in common with these credit union
24 societies.

25 Now, determination of total credit charges:
26 A person borrowing from a credit union knows his complete
27 charge's cannot exceed 12 per cent per annum of the amount
28 received as this is the maximum rate permitted by the
29 Credit Unions Act, which is enforced by the Ontario
30 Department of Insurance. And this is enforced -- I would



1 like to elaborate on Mr. Richards' reply to Mr. White,
2 I believe it was -- we actually do calculate the interest.
3 Our examiners do check this.

4 MR. WHITE: In total.

5 MR. JAFFRAY: Hmmm?

6 MR. WHITE: In total for . . .

7 MR. JAFFRAY: No. They check it on the testing
8 technique, they test the contracts -- the individual
9 contracts to see if the rates being collected -- the
10 amount being collected is at a rate stipulated in the
11 contract, and we do find that it is sometimes in excess
12 of the contract. But, never in excess of 12 per cent.
13 I have sometimes a running battle with certain of our
14 examiners to this day -- I take the position that if
15 a person is in arrears and a credit union adds the interest
16 in arrears to the principal balance; so long as that
17 doesn't increase the rate to a point where they are
18 breaking the law, this is between the individual and the
19 credit union and we shouldn't interfere. But, we check
20 it to make certain that they don't exceed the law, because
21 this could lead to them becoming profit-minded and they
22 shouldn't be profit-minded. You usually find that this
23 happens where they are operating at one half of one
24 per cent per month. Some of the caisses populaires want
25 to stick to this mythical six per cent figure, and they
26 charge one half of one per cent per month; or, three-
27 quarters of one per cent per month on the diminishing
28 balance. They can say honestly this one half of one per
29 cent of the bank rate which is a myth. For your inform-
30 ation on the small loans operations of banks--I don't know



1 like to elaborate on Mr. Nicholson's reply to Mr. Wilson.
2 I believe it was -- we certainly do calculate the movement.
3 Our examination of stock lists.
4 MR. WILSON: In reply.
5 MR. NICHOLSON: I am sorry.
6
7 MR. WILSON: Now, they check it on the trading
8 technique, they test the technique -- the method of
9 contacts to see if the prices really reflected -- the
10 amount being collected is at a rate stipulated in the
11 contract, and we do find that it is maintained in some
12 of the contracts. But never to excess of 12 per cent.
13 I have examined a number of contracts with certain of the
14 exchanges to this day -- I take the position that I
15 a person is in business and a certain order book the I follow
16 is answer to the exchange balance; so long as what
17 doesn't increase the price to a point where they are
18 not doing the job, that is between the individual and the
19 credit union and we don't interfere. Now, we don't
20 in the future when they could exceed the law, because
21 that could lead to some becoming profit-minded and they
22 shouldn't be profit-minded. The really thing that the
23 person who gives the operating at one half of one
24 per cent per month. Now, if the whole population want
25 to stick to that, that will give them 12 per cent, and they
26 cannot get more than 12 per cent per month, so, these
27 quarters of one per cent per month on the distribution
28 balance. They can say really there are half of one per
29 cent at the time when they are trying. Now, your question
30 of the whole issue operations of banks -- I don't know



1 whether it is changed, but this goes back to the Royal
2 Commission on Prices in 1948, minutes of proceeding in
3 evidence where Mr. MacKinnon who is now the president of
4 the merged Canadian & Imperial Bank admits that on this
5 discounting business, to arrive at the effective interest
6 rate, I think the matter was the subject of discussion
7 in 1944, the time of the revisions of the Bank Act.
8 An approximation of the effective rates -- if you lump
9 the two together; that is the amount of deposit against
10 the amount of the loan would be eleven and three-quarters
11 per cent, and what the banks do to get around the effect-
12 ive rate of interest is, since interest is having the
13 money for one full year, if it is 365 days, it is
14 my understanding that it is simple exact interest. If
15 it is 360 days, it should have the money for the principal
16 for its simple ordinary interest. I am mystified by all
17 the mystery, personally, about calculating interest.
18 I think what happens is, a lot of us, as we get along,
19 we start using tables and we ourselves forget the arith-
20 metic that we were taught in public school. So, I would
21 go back over my old arithmetic to make sure that my
22 thinking was still right; for if I am wrong, I was
23 taught incorrectly, and for that I hold the Department
24 of Education to blame.

25 (Laughter.)

26 So, what they do is to get around the fact
27 that they can't charge more than six per cent when they
28 have a small loan, they credit the repayments back into
29 a deposit account, and so a loan balance on their
30 books remains outstanding until the maturity date. Then,



whether it is changed, but I go back to the Royal
Commission on Prices in 1945, minutes of proceedings in
evidence where Mr. Macdonald who is now the president of
the merged Canadian & Imperial Bank admits that in this
discussing business, to arrive at the effective interest
rate, I think the writer was the subject of discussion
in 1944, the time of the revelations of the bank book.
An approximation of the effective rate -- if you lump
the two together; that is the amount of deposit against
the amount of the loan would be eleven and three-quarters
per cent, and what the banks do to get around the effective
rate of interest is, since interest is having the
money for one full year, if it is 10 per cent, it is
my understanding that it is simple annual interest, if
in its 360 days, it should have the money for the principal
for the simple ordinary interest. I am mystified by all
this. I think what happened is, a lot of us do get along
we stand along together and we ourselves forgot the simple
math that we were taught in public school. So, I would
go back over my old arithmetic to make sure that my
thinking was still right; for if I am wrong, I was
making incorrect, and in fact I hold the reputation
of Education to blame.
(Laughter.)
So, what they do is to get around the fact
that they want to charge a low rate when they
have a small loan, they credit the negative to bank line
a deposit account, and as a loan balance on their
books remains outstanding until the maturity date. Then



1 they have the offsetting entries.

2 Now, their interest rate actually works out to
3 more than 12 per cent, but it is reduced to 11-3/4 per
4 cent at this time by the interest which accumulated on
5 the deposit account which was growing to repay the loan
6 balance. So, if that is helpful, I thought I would toss it
7 in. Most units of consumer credit, if you do

8 a little multiplication and subtraction you can calculate
9 the total credit cost. Their problem is in separating
10 the total cost into items which will enable them to
11 compare what is being charged for legal fees, searches,
12 registration, et cetera; proper legal disbursement
13 and as interest by the various merchants of credit.

14 And, until I am shown differently, I don't think whether
15 the payments are skipped or not makes any difference.

16 The longer you have money borrowed, the cost of interest
17 becomes more expensive. But, the rate can't change.

18 It has to stay the same. The difficulty is in determin-
19 ing what the rate is, because you can't define what
20 properly can be considered as interest, since this legally
21 has not been settled. There isn't a teacher, nor anybody
22 else in my opinion who can tell you what proportion of
23 your charges are interest. They have an opinion as to
24 what should be interest. You have an opinion as to what
25 should be interest. But, neither of you can prove it,
26 and I think the general public, when they are involved
27 in a sales contract deal, or instalment finance deal
28 do like the rest of us when it comes to appearing in
29 court. We are not in our environment, and therefore,
30 we are at a loss -- at a disadvantage. When you are in



they have the offending character.

Now, their interest rate normally works out to

more than 12 per cent, but it is reduced to 11-3/4 per

cent at this time by the interest which is added on

the deposit account which was growing to repay the loan

balance. So, if that is right, I thought I would pass it

in. Next units of resources needed, it will be

a little multiplication and division you can determine

the total credit cost. Their problem is in accounting

the total cost into items which will enter them to

company what is being charged for legal fees, expenses,

registration, et cetera; proper legal disbursement

and an interest by the various payments on capital

And, until I am shown this clearly, I don't know whether

the payments are charged on net assets and if they are.

The lender has been money borrower, the cost of interest

becomes more expensive. And, the more units of money

he has to pay for them, the difficulty is in determining

how much the value is, because you will either value

property can be considered as interest, since this is all

has not been received. There is a value, but somebody

else in my opinion and you will find what proportion of

your charges are interest. They have an opinion as to what

what should be interest. The law an opinion as to what

should be interest. But, neither of you can prove it,

and I don't see the general public, when they are involved

in a case of interest, or whatever finance deal

do in the case of an estate or something in

court. We are not in the same environment, and therefore,

we are at a loss -- at a disadvantage. When you are in



1 a merchant's store, the average person is at a dis-
2 advantage, and he is in a good position to be plucked,
3 and I think there are some very skillful pluckers about.

4 I pre-judged, without any hesitation the
5 decision that the Supreme Court of Canada is trying to
6 reach, but I had to re-write this last page. I had it,
7 when I first wrote it, that they had upheld our Court of
8 Appeal in bringing our Act ultra vires.

9 Since the Ontario Court of Appeal has held
10 Ontario's Unconscionable Transaction Relief Act to be
11 unconstitutional, the most logical means; separation and
12 money-lending contracts of finance or service charges, on
13 legal fees and disbursements. From each other, and from
14 the effective rate of interest which they suggest them-
15 selves as possible solutions for enabling the credit
16 user to determine whether these charges are fair and
17 proper cannot be made, as the Province apparently lacks
18 the legislative power to render them effective.

19 I think, as a layman's opinion, the following
20 thinking: My thinking is that of Mr. Lawrence here, that
21 if anybody seriously challenges the statement of mortgage
22 form that we are using under the amended Brokers' Regis-
23 tration Act, I think that will be tossed out too. I
24 could be wrong.

25 I say this, because the differentiation between
26 true interest charges and service charges is so difficult
27 -- that phrase was left out -- and the possibly of
28 disguising the interest as other charges is so great that
29 it becomes indispensably necessary to regulate interest
30 and all other charges in the same contract, and to do this



a reasonable return, the average person is at a disadvantage, and he is in a good position to be benefited, and I think there are some very slight possibilities about.

I pre-judged, without any hesitation the decision that the Government of Canada is trying to reach, but I had to re-write this last page. I had it when I first wrote it, and they had not had any doubt of Appeal in principle, and not after all.

Since the Ontario Government has held Ontario's Government in the position of being unrepresentative, the most logical means of representation and money-lending concerns of Ontario's people, or legal fees and disbursements. From each other, and from the effective rate of interest which they suggest themselves as possible solutions for enabling the credit user to determine whether their charges are fair and proper cannot be made, as the Province's property is the legislative power to render them effective.

I think as a lawyer's opinion, the following thinking: He thinking is that of Mr. Law, not power, that if anybody seriously challenges the statement of Mr. Law, that we are making under the amended Ontario's Act, I think that will be treated as too.

could be wrong.

I say this, because the differentiation between

and that power was left out -- and the possibility of

disputing the interest as other interest is so great that

it becomes indistinguishable as to regulate interest

and all other charges in the same context, and to do this



1 by legislation would mean legislating on interest which
2 would apparently be in conflict with a federal power under
3 the British North American Act. So, if you can't deal
4 with what interest is by getting it out, and if you have
5 to stay with the total charges; according to -- this
6 is an American book "Buy Now - Pay Later"-- on this whole
7 business of consumer credit. He offers in there what
8 he calls a constant ratio formula, and irrespective of the
9 length or type of the instalment sales contract. If this
10 formula was included somewhere on the face of the contract,
11 any purchaser of it who had a grade eight education could
12 work out what his effective rate of interest was.
13 And, I say effective rate of interest because as it stands
14 now, at law, interest is compensation for the use of
15 money and it doesn't have to be tied down to a calculation
16 on a rate percentum of the principal sum. I mean, you
17 can have interest in kind. This is because you are paying
18 not only for the inconvenience that the other person --
19 the lender undergoes as a result of loaning you the money,
20 you are repaying him for the hazard at risk in getting
21 his principal back. This is why it is difficult to say your
22 service charges differ from interest and that sort of
23 thing. So he just lumps his total credit cost in dollars,
24 and give him a formula where he can convert that to a
25 percentage if he wants. Then he has all the information
26 he needs.

27 I personally, feel that -- we only had a week's
28 notice on this to gather a file on it, but you don't
29 get a chance to assimilate it all. But, it seems that
30 the legislation on interest has gone right back to the



would apparently be in conflict with a Federal power under
the British North American Act. But if you can't deal
with what is best in by getting it out, and if you have
to deal with the total situation, according to the
is an American book "My New - My Future" - my future
business of common sense. We often in these days
he calls a constant ratio between the two respective of the
length of the two lines, and the ratio is 1 to 1.
Formula was included somewhere on the face of the company
any purchaser of it who had a grade eight education could
work out what his effective rate of interest was.
And I say effective rate of interest because as we know
now, at low, interest is compounded in the use of
money and it doesn't have to be tied down to a calculation
on a rate percentage of the principal sum. I mean, you
can have interest in kind. This is because you are paying
not only for the inconvenience that the owner carries -
the lender undergoes as a result of loaning you the money.
You are repaying him for the burden as well as for the
the principal back. This is why it is so difficult to say
service charges differ from interest, and that sort of
thing. So we just keep the total credit cost in dollars,
and give him a formula where he can convert that to a
percentage if he wishes. Then he has all the information
he needs.

I personally feel that -- we only need a week's
notice on this to get a little on it, but you don't
get a chance to see it. But it is more than
the I mention on interest has gone right back to the



1 "hang the rabbit code", and it doesn't seem to be very
2 effective. There are always ways of getting around it
3 or finding equals. It seems to me the most effective way
4 is to encourage the growth of organizations that are
5 lending at what is a reasonable figure, given the
6 conditions at any point of time. When you try to assoc-
7 iate this with bank rates and that sort of thing, it
8 is not very helpful because a good many people, first of
9 all, won't go to a bank. So, whatever the bank is lending
10 at, even on small loans isn't going to help them a great
11 deal, so you have to have institutions like -- I would
12 say -- like credit unions that will take people on
13 character. I think that 12 per cent is more the going
14 rate for small loans today than any other figure which
15 is mythical, and I think instalment sales as handled by
16 the reputable dealers, the big department stores, say,
17 is around -- the effective rate of interest is around
18 sixteen to eighteen per cent. They will tell you it is
19 nine and a half; but whenever you are reducing the bal-
20 ance, then this business as you start with interest
21 being that which is paid for the use of money for a
22 given period of time. If you have no principal for that
23 given period of time and then you pay back the principal,
24 plus the amount as a percentage stated as interest.
25 That's effective. But, if you start repaying it within
26 a month of the time you get it, then you have had the
27 whole sum for the period. You have either had the full
28 sum for half the period or you have had half the sum for
29 the whole period.

30 And, even credit unions get mixed up on this



"and the whole of it," and it doesn't seem to me very effective. There are always ways of looking around it on finding oneself. It seems to me the most effective way is to concentrate the growth of organizations that are lending at what is a reasonable figure, given the conditions at any point of time. When you have a bank like this which bank notes and that sort of thing, it is not very helpful because a good many people, I think, all, won't go to a bank. So, whatever the bank is doing at, even on small loans, I don't think it helps them a great deal, so you have to have institutions like -- I would say -- like credit unions that will take people on deposits. I think that is very good in more the long run for small loans today than any other figure which is typical, and I think investment sales as handled by the reputable dealer, the only government agency, say, is needed -- the effective way of investment is to invest in sixteen to eighteen per cent. That will earn you it is nine and a half; but whenever you are producing the balance, then this business at your point with interest being that when it paid for the use of money for a given period of time. If you have no principal or that given period of time and then you pay back the principal, plus the interest as a percentage added on I think that is effective. But, if you are not paying it within a month or two, then you have not the whole sum for the period. You have either had the whole sum for half the period or you have had half the sum for the whole period.

And, even credit unions get mixed up on this



1 business of cost and rate. They have a little card which
2 will show the member "you pay us back a hundred dollars
3 in 12 months at eight dollars and so many cents a month.
4 You pay us back \$6.50." They say that is the percentage,
5 but it isn't -- it is \$6.50 expressed as a percentage of
6 50 which gives you over 12. It gives you 13 per cent.
7 The cost is only \$6.50, and this is what they mix up.

8 Gentlemen, I close my submission.

9 THE CHAIRMAN: Any questions, gentlemen?

10 MR. WHITE: I would like to see the formula.

11 THE CHAIRMAN: Mr. Lawrence? Mr. Bukator?

12 Mr. MacDonald? Mr. White?

13 MR. WHITE: I suppose you would be disappointed
14 if I didn't say something.

15 I think that Mr. Jaffray's devotion to the cause
16 of credit unions is very commendable. But, in all
17 fairness to the banks and other commercial loaners, I
18 think it should be mentioned that they are in many cases
19 charging no more than the credit unions and paying
20 taxes too. Because obviously the credit unions
21 whose installations said that the province is failing
22 sometimes as far as (inaudible)

23
24 Not paying any corporate income taxes and obviously
25 these credit unions can lend money at a very much lower
26 rate of interest. Perhaps

27 12 per cent is much too high. Perhaps the 12 per cent
28 being charged by I.A.C. on conditional sales contracts,
29 for major pieces of equipment is much too low. I think it would
30 leave unfairly the question with the minds of the members



1 estimate of cost and value. They have a little sand which
2 will show the members. You pay us back a hundred dollars
3 in 10 months at eight dollars and so many cents a month.
4 You say we back 10.50. They say that in the meantime
5 but to land's -- it is 10.50 for each acre a percentage of
6 50 which gives you over 10. It gives you 15 per cent.
7 The cost is only 8.50, and that is what they will pay.
8 Gentlemen, I close my submission.
9 THE CHAIRMAN: Are there any questions?
10 MR. WHITE: I would like to see the formula.
11
12 Mr. Macdonald? Mr. White?
13 MR. WHITE: I suppose you would be disappointed
14 if I didn't say something.
15 I think that Mr. Jeffrey's decision is the basis
16 of credit unions is very commendable. But, in all
17 fairness to the banks and other commercial banks, I
18 think it should be mentioned that they are in many cases
19 charging no more than the credit unions and paying
20 taxes too. Because originally the credit unions
21 when they started said that they wanted to be like
22 commercial banks and pay no taxes.
23
24 The primary aim of the credit unions was to
25 have credit in one of their hands at a very low rate.
26 Note of interest. 6 per cent.
27 12 per cent is much too high. Because the 12 per cent
28 is charged by I.A.C. on money which is loaned out.
29 Now we are faced with the question of how to pay for the
30 loans which are given in the hands of the bank.



1 of the Committee and the press that were pre-judging
2 banks for other commercial interests right now.

3 It is a little off the point, but since the Act
4 is in front of us -- may I ask Mr. Jaffray what Section
5 28 means to him dealing with reserves for credit unions.
6 Every credit union shall set aside 20 per cent of its year-
7 ly net profits to a guarantee fund. What are the net
8 profits which are not defined in the Act?

9 MR. JAFFRAY: No, they aren't, and you probably
10 can't get anybody to agree on this. But, the thing
11 you have to do if you have an Act to administer, of course,
12 is interpret it as sensibly as you can and then be
13 prepared to be challenged on it. So for us, yearly net
14 profits, is their gross revenue less operating expenses.
15 And, operating expenses are not taken to include any
16 loss that would be properly, or, should be properly covered
17 by insurance. If they took a loss through a theft and
18 they didn't have bonding insurance, or they took a loss
19 through fire and they didn't have fire insurance, we would
20 not permit them to touch . . .

21 MR. WHITE: Or, if they took a loss through
22 defaultation, mismanagement?

23 MR. JAFFRAY: We would not permit them to touch the
24 guarantee fund which we hold and is to meet losses, and
25 it doesn't state whether or not it is operating losses. But,
26 we say it is in keeping with the fact there are losses
27 through (inaudible)

28 In other words, we say that credit unions are
29 doing their job. They should be losing some money when
30 they lend, if they are going to live up to spirit behind



of the Committee and the press, they were not thinking

back for other commercial interests.

It is a little bit of a pity, but I am not the one

is in front of me -- say I am Mr. Jackson and Jackson

is more to him dealing with reserves for credit purposes

every credit unit and adds to the sum of the year

if you go to a bank and find what and how

provisions which are not defined in the Act

can't get anybody to agree on this. But, on doing

you have to do it. You have to do it to the extent, if you

is interested in as seriously as you can and then do

proposed to be challenged on it. It is for the year, it is

And, certainly, you are not going to be able to

does that would be possible, or, should be, properly

by themselves. If they took a look through a bank and

they don't have anything to say, or they don't have

to say, then they don't have to say anything. We will

and that is the way

MR. JACKSON: If I don't look a little through

MR. JACKSON: We don't have to look through a bank

manages to do what we hold and to do what we want, and

to decide what whether or not it is a good idea

we say it is an idea which we don't want to do

In other words, we say that credit unions are

doing them now. They are doing them now, and some money with

they don't. If they are going to live up to their beliefs



1 the Act incorporating it.

2 MR. WHITE: Well, if net profit equals gross
3 revenues and its operating expenses, would you clarify
4 that term "operating expenses"? To establish, is interest
5 paid on deposits and operating expenses?

6 MR. JAFFRAY: Yes, it is.

7 MR. WHITE: And dividends to members
8 on operating expenses?

9 MR. JAFFRAY: No. This is one way when it
10 comes to this business of the taxation division of the
11 credit unions, in answer to your question --
12 they would simply -- to avoid taxation operate as a (inaudible)
13 on much less than one per cent per month.



the Act insupportable.

MR. WHITNEY: Well, if not profit, what gross

revenues and the operating expenses, would you clarify

that term "operating expenses"? To establish, is it proper

paid on deposits and operating expenses?

MR. JAFFAR: Yes, it is.

MR. WHITNEY: And divide it to determine

on operating expenses?

MR. JAFFAR: No. This is one way when it

comes to this business of the taxation division of the

credit union, in answer to your question --

they would simply -- to avoid taxation operate as a (company)

in much less than one per cent per month.



1 Or instead of taking all the qualifying shares, since
2 we only have one vote irrespective of the number of
3 shares held, put the money on deposit, and then reduce
4 their taxable profit --- by that method, or
5 those methods, rather.

6 MR. WHITE: Well, is the interest on
7 deposits set forth in the actual debt as to the
8 question of a credit union.

9 MR. JAFFRAY: Oh, it's the ability to take
10 deposits is set forth in the Act, but the interest isn't --
11 what they pay ---

12 MR. WHITE: What I was asking is,
13 the credit union could if it wished make sure there was
14 no deposit.

15 MR. JAFFRAY: Yes. Well, or close to it.

16 MR. WHITE: And in that way avoid
17 meeting any kind of (inaudible)

18 MR. JAFFRAY: Yes, but the law would have
19 to be changed, because that would be a real hazard.
20 There is another hazard too, of course, in having him
21 build up too large a net profit. And that is if some-
22 body some day might decide to reduce membership --- as
23 a matter of fact, it has been done in the States and
24 there is a remedy, of course -- and split the large melon.

25 MR. WHITE: Whatever their requirement it
26 doesn't look quite simple to me. Are you having
27 many bankruptcies?

28 MR. JAFFRAY: We have only had one credit
29 union that has closed its doors for any reason, where
30 the members have taken a beating.



instead of taking all the qualifying shares, since

we only have one vote irrespective of the number of

shares held, but the money on deposit, and then reduce

their taxable profit --- by that method, on

those methods, rather.

MR. WHITE: Well, is the interest on

deposits set forth in the actual report as to the

question of a credit union.

MR. JARVAY: Oh, it's the policy to take

deposits is set forth in the Act, but the interest isn't

what they pay ---

MR. WHITE: What I was asking is,

the credit union could it furnish more sure there was

no deposit.

MR. JARVAY: Yes, Well, or close to it.

MR. WHITE: And in that way would

meeting any kind of (unintelligible)

MR. JARVAY: Yes, but the law would have

to be changed, because that would be a real remedy.

There is another hazard too, of course, in having him

build up too large a net profit. And that is in some-

body some day might decide to reduce membership --- as

a matter of fact, it has been done in the States and

there is a remedy of course --- and split the profit before

MR. WHITE: Whatever their relationship is

doesn't look quite simple to me. Are you hearing

any comments?

MR. JARVAY: We have only had one credit

union that has closed its doors for any reason, where

the members have been a hearing.



1 MR. WHITE: Is that in London?

2 MR. JAFFRAY: No. I didn't have that in mind.
3 It was the Kirkland Lake effort.

4 MR. WHITE: The (inaudible)
5 one in London has left the depositors out on a limb.
6 They can't get their money back. I don't know if they
7 are in bankruptcy or not. They are insolvent.

8 MR. JAFFRAY: Well, of course, we have 16 or 170
9 of these, so you can't be on top of all the details, but
10 we can look into that one. I am not aware of this
11 winding-up at a loss --- I know it is in trouble, and
12 is probably under suspension. But there again they
13 can elect, as of the last three years to contribute to
14 a stabilization fund which is operated by their league,
15 whereby they pay one half of 1% of all money deposited
16 with them into this stabilization fund. It is based on
17 the Federal Deposit Insurance Corporation.

18 MR. WHITE: Do you think that should
19 be compulsory?

20 MR. JAFFRAY: I thought it should be compulsory,
21 but the people --- I thought it should be compulsory,
22 which would put, of course, a member of the Department
23 on a board of administration and theirs is the
24 independent and they don't want any more Government
25 interference when they can get out from under, and they
26 elected to set it up on their own --- see how you made
27 out.

28 MR. BURKATOR: Has this Department recommended
29 to the Minister that they be made compulsory?

30 MR. JAFFRAY: No, I was chopped down to a level.

MR. WHITE: Is that in London?

MR. JARVIS: No, I don't have that in mind.

It was the National Labor Union.

MR. WHITE: The (Laudible)

one in London has left the disposition out of a libel.

They can't get their money back. I don't know if they

are in bankruptcy or not. They are insolvent.

MR. JARVIS: Well, of course, we have to go on it

of course, so you can't be on top of all the details, but

we can look into that one. I am not sure of this

winding-up at a loss --- I know it is in trouble, and

is probably under suspension. But there again they

can elude, as of the last three years to contribute to

a stabilization fund which is operated by their agents,

whereby they pay one half of 1% of all money deposited

with them into this stabilization fund. It is based on

the National Labor Union's assets.

MR. WHITE: Do you think that would

be satisfactory?

MR. JARVIS: I thought it should be satisfactory.

but the people --- I thought it should be satisfactory.

which would put, of course, a number of the Department

on a basis of stabilization and thereby

independent, and they don't want any more Government

interference when they can get out from under, and they

elect to set it up on their own --- now how can you

one.

MR. BROWN: Has that Government report in connection

to the Minister, that they be more satisfactory?

MR. JARVIS: No, I was dropped down to a level.



1 MR. BURKATOR: Now, the point being, could Mr.
2 Jaffray submit the formula which he suggests on page
3 4, proposal number 1, for the committee to consider.

4 MR. JAFFREY: Yes, I could do that.

5 THE CHAIRMAN: Any other questions,
6 gentlemen?

7 MR. NODEN: I wonder if Mr. Jaffray
8 would be prepared to give us a brief outline of
9 the meaning of the word "bonus payments" ---

10 MR. JAFFRAY: Bonus payments in crediting?

11 MR. NODEN: And in ---

12 (Inaudible)

13
14 I hear the term used frequently ---

15
16 MR. JAFFRAY: Mr. Simone will follow me. He
17 can give you more details. Basically, for instance, on
18 a mortgage the mortgage is drawn for \$2,500.00 --- the
19 borrower gets \$1,500.00 and the bonus in that case is
20 \$1,000.00. And he would --- and the mortgage would be
21 drawn, say, for $7\frac{1}{2}\%$, but the --- it would be on
22 the full amount of \$2,500.00. So it can be worked on
23 other contracts, say, the same way as where he actually
24 doesn't give any money, although he can give a bonus in
25 cash too, but that in practice wouldn't be done,
26 because anybody who is borrowing, of course, wouldn't
27 have the money. The bonus has to be in an
28 undertaking on a contract where the undertaker is paying
29 that which they didn't get.

30 THE CHAIRMAN: Mr. Noden? Mr. Irwin?



MR. BURTON: Now, the point being, could Mr.

Barney submit the formula which he suggests on page

4, proposal number 1, for the committee to consider.

MR. BARNEY: Yes, I could do that.

Any other questions?

Questions?

MR. BURTON: I wonder if Mr. Barney

would be prepared to give us a brief outline of

the meaning of the word "bonus payment" ---

MR. BARNEY: Bonus payments in connection

with ---

(Inaudible)

I have the term used frequently ---

MR. BURTON: Mr. Barney will follow me. He

can give you more details. Basically, for instance, on

a mortgage the mortgage is drawn for \$2,000.00 --- the

borrower gets \$1,500.00 and the bank in this case is

\$1,000.00. And he would --- and the mortgage would be

drawn, say, for 7%, but the --- it would be on

the full amount of \$2,000.00. So it can be worked on

other contracts, say, the same way as when you usually

don't give any money, although he can give a bonus in

cash too, but that is something which is to be done,

because anybody who is borrowing, of course, would have

have the money. The bonus has to be in an

understanding on a contract where the underwriter is paying

that which they don't get.



1 MR. NODEN: Mr. Chairman, one of the main
2 questions
3 chief administrator ---

4
5 (Inaudible)

6
7 Do you have very many
8 complaints from members that they didn't realize they
9 were paying so much for their loans?

10 MR. JAFFRAY: No, we don't, and I am always
11 amused at the irony that I am taken as a great crusader for
12 credit unions. I am sure most credit unions don't feel
13 that way about me. No, we just simply make them adhere to the
14 Act and you don't have any complaints.

15 Their contracts, of course,
16 state 1% per month or 12% per annum. The big bulk of these
17 still state 12% per annum, only those who have lost
18 court cases on substantial loans have amended their
19 contracts to state effectively -- he names the same
20 Boston firm that has been mentioned.

21 MR. PRICE: Well now, these contracts, in
22 the main, indicate to the borrower the amount of
23 interest he is paying. Has there been too much
24 difficulty in the administration of this Act?

25 MR. JAFFRAY: No.

26 THE CHAIRMAN: Because
27 ample funds

28 (Inaudible)

29

30



MR. NORMAN: Mr. Chairman, one of the main

chief objection --

(Inaudible)

No, you have very many

complaints from members that they didn't realize they

were paying so much for their money

MR. LAMBERT: No, we don't, and I am always

amused at the irony that I am taken as a great supporter for

credit unions. I am sure most credit unions don't feel

that way about me. No, we just simply make them aware of

Not and you don't have any complaints.

Their contracts, of course,

state 1% per month or 12% per annum. The bulk of that

still state 12% per annum, only those who have been

could make an substantial loans have carried their

contracts to state effectively -- in some the same

Boston firm that has been removed

MR. FOLLO: Well now these contracts, in

the main, indicate to the borrower the amount of

interest he is paying. Has there been any such

difficulty in the administration of this Act?

MR. LAMBERT: No.

THE CHAIRMAN: Because

(Inaudible)



1 MR. JAFFRAY: Well, yes, you could have
2 but I was informed by the Ontario Credit Union League
3 that they are going to appear, so I didn't try to get
4 anything on comparative rates or anything. They said
5 they would handle that end of it, so if that is
6 satisfactory.

7 MR. MacDONALD: Mr. Chairman, I have some
8 questions I would like to put. Mr. White has made
9 some comments ---- (Inaudible)

10
11
12
13
14 I think it is very commendable when he asks us not
15 to pre-judge the banks, but I think it would be equally
16 commendable if we didn't pre-judge the credit unions.

17
18
19 I am sure the key point here is that many people in
20 credit unions can get credit --yet can go to the bank
21 and not get inside the front door, because of the very
22 strict --- (Inaudible)

23 MR. JAFFRAY: Well, I am not necessarily
24 telling you --- I didn't mean to imply that.

25 MR. MacDONALD: I have some complaints ---

26 MR. JAFFRAY: Oh, not the slightest
27 I just think that we should be open-minded when we
28 consider commercial lenders of all sorts. Now, I wouldn't
29 want to offend them at all --- I am very much in favour
30 of them. As a matter of fact --- (Inaudible)

MR. JAMES: Well, yes, you could have

but I was informed by the Ontario Credit Union League
that they are going to appear, so I didn't try to get
anything on constructive cases or anything. They said
they would handle them and of it, so it that is

MR. JAMES: Mr. Thompson, I have some

questions I would like to put. Mr. White has made

some comments --- (Inaudible)

I think it is very commendable when no one is not
to pre-judge the banks, and I think it would be equally
commendable if we didn't pre-judge the credit co.

I am sure the key point here is that many people in
credit unions can get credit --- you can go to the bank
and not get inside the front door, because of the way
it is set --- (Inaudible)

MR. JAMES: Well, I am not necessarily
telling you --- I think we are in a bit of a

MR. JAMES: I have some questions ---

MR. JAMES: Oh, yes, Mr. Thompson

I just think that we should be open-minded when we
consider commercial banks of all kinds. Now, I would
want to offend none at all --- I am very much in favour
of them. As a matter of fact --- (Inaudible)



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

THE CHAIRMAN: Is that all the questions?

MR. REILLY: And if we do,
and I think we are getting to the stage where we are
suggesting certain legislation on disclosure rates,

do you think it is necessary
or that it would be the right thing to do that such a
means should come within the perview of any
suggested legislation bill, or do you think that this
is already covered?

MR. JAFFRAY: I think they should fall under
the perview, because after all, there isn't anything
right now that says that a credit union has to disclose
its rate of interest. It is simply that by practice
they always have, but let's face it --- our talking
on balance now, but certainly we have some credit
unions that can be very profit-minded, that like to keep
refinancing contracts --- it is easier than appraising
new loans and that sort of thing and if they are
working but on balance?

They are motivated for other
than individual profit reasons.

MR. MacDONALD: Credit is solvent. The
1% is the slope. I don't think anybody ever got
into a credit union who wasn't aware of it and they are
usually all the same.



MR. HALL: And in the...

and I think we are going to be...
suggesting certain legislation on this...

do you think it is necessary
or that it would be the right thing to do that such a
more should be... the review of any
suggested legislation bill, or do you think that this
is already covered?

MR. JARVIS: I think they should have...
the review, because about all there is left...
right now they have a credit union has to discuss
the rate of interest. It is simply that by...
they always have, but let's face it -- our...
on... now but certainly we have some...
union that can be very much needed, that...
restructuring... -- it is easier than...
new loans and that kind of thing and if they are
... but on...

There are motivated for other
then individual people reasons.

MR. WATKINS: Credit is... The

is the slope. I don't think anybody ever got
into a credit union who wasn't aware of it and they are



1 MR. JAFFRAY: No. As a matter of fact, the
2 movement itself doesn't want to reduce the rate. When
3 money is cheap they are under pressure from their
4 members, and some of them have lost members, rather
5 than meet the more favourable rates. And, of course,
6 if they are really, these types are rare, but if they
7 are really sold on their reason for being, they will
8 not lend to a borrower if they know that he can get a
9 better rate at a bank. They would send him there.
10 He has the type of collateral. Now, of course, I don't
11 think the banks care too much --- they are not too
12 worried about credit unions insofar as competition is
13 concerned, because the philosophy is not the Act, but
14 their bylaws, state they must deposit all receipts in
15 a bank within 48 hours, so this handles for the bank
16 a lot of small accounts in one account that they
17 otherwise might not want to be troubled with, and so
18 most of it winds up in the banks anyway.

19
20 MR. REILLY: Mr. Chairman, I would ---

21 (Inaudible)
22

23 Yes, they can only use them
24 for provident and productive purposes loans, and when
25 it comes to investing, they can only invest in the
26 investments which permit joint stock insurance companies,
27 with the exception that their full vote of the
28 shareholders they can invest not more than 10% in
29 anything. In any wildcat scheme they want.

30 MR. REILLY: Not more than 10%?



MR. JAFFRAY: Not as a matter of fact, the movement itself doesn't want to reduce the rate. When money is cheap they are under pressure from their members, and some of them have lost members rather than meet the more favourable rates. And, of course, if they are really, these types are new, but if they are really sold on their reason for doing, they will not lend to a borrower if they know that he can get a better rate at a bank. They would send him there. It has the type of collateral. Now, of course, I don't think the banks care too much -- they are not too worried about credit unions because as a connection is concerned, because the philosophy is not the same, but their bylaws, since they must deposit all deposits in a bank within 48 hours, so this handles for the bank a lot of small accounts in one account and they otherwise might not want to be troubled with, and so most of it winds up in the banks anyway.

MR. WELBY: Mr. Jaffray, I would --

(SOUNDING)

Yes, they can only use them for private and restricted purposes loans, and when it comes to investing, they can only invest in the investments which permit holding some insurance companies with the exception that their will vote of the shareholders they can invest not more than 10% in any one company. In any other company they want not more than 10%.



1 MR. JAFFRAY: Not more than 10%. Now,
2 they don't. The funny things arise --- we went after
3 one credit union because it had shares in Eldorado.
4 Eldorado turned out to be their Summer camp by that name
5 of an ethnic group. We fell flat on our faces there,
6 you know. That sort of thing happens.

7 THE CHAIRMAN: Any further questions,
8 gentlemen? Well, thanks very much, Mr. Jaffray. We really
9 appreciate your submission and your appearing before
10 us today.

11 Mr. Simone, we can either hear you this
12 afternoon if you are not going to be too long, or we
13 can put it over until the morning. Approximately how
14 long is your submission?

15 MR. SIMONE: I think perhaps it would be
16 better to leave it until tomorrow.

17
18
19 THE CHAIRMAN: Does that suit the members of
20 the Committee that we put this over until tomorrow
21 morning at ten o'clock? All right then, that is that.
22 We will adjourn until tomorrow morning at ten o'clock.

23
24
25 ---Adjournment.
26
27
28
29
30



MR. TATNALL: Not more than 10%. Now,

they don't. The funny thing arises --- we went after

one credit union because it had shares in Eldorado.

Eldorado turned out to be their summer camp by that name

of an ethnic group. We fell flat on our faces there.

You know, that sort of thing happens.

THE CHAIRMAN: Any further questions?

Gentlemen? Well, thanks very much, Mr. Tatnall. We really

appreciate your submission and your appearing before

us today.

Mr. Simons, we can either hear you this

afternoon if you are not going to be too long, or we

can put it over until the morning. Approximately how

long is your submission?

MR. SIMONS: I think perhaps it would be

better to leave it until tomorrow.

THE CHAIRMAN: Does that suit the members of

the Committee that we put this over until tomorrow

morning at ten o'clock? All right then, that is that.

We will adjourn until tomorrow morning at ten o'clock.

---Adjournment---

